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RICHARD T. ELY, PH.D, LL.D., EDITOR.

NUMBER ONE

THE HISTORY, ORGANIZATION AND
INFLUENCE OF
THE INDEPENDENT TREASURY
OF THE UNITED STATES.

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PREFACE.

THIS essay was begun with the purpose only of tracing the influence of the Independent Treasury on business, the part which constitutes chapter vi. of the book. But in view of the growing importance of the subject, it seemed best to make the study as complete as my opportunities would permit. It is hoped that some light is thrown on a matter that will force itself on public attention before many years more, if the evil of the system continues to grow, as it is likely to do.

The essay was begun with a prejudice in favor of the sub-treasury system, because it seemed pre-eminently an institution of the people. But as a result of the investigation I have been forced to change my opinion, and regard the system as injurious to the business interests of the country.

I owe thanks to the many friends who have cordially helped me with suggestions, material, and criticism. Dr. Ely, the editor, has kindly encouraged me from time to time in the work, and made helpful suggestions on many points. Dr. W. A. Scott, Dr. F. J. Turner, and Dr. C. H. Haskins, also, of the University of Wisconsin, have aided

me with valuable criticism and suggestion. Dr. J. A. Woodburn, of Indiana University, kindly read a large part of the work, and many changes were made as a result of his friendly criticism. I owe a similar debt of thanks to Professor F. W. Taussig, of Harvard University, and to Professor Woodrow Wilson, of Princeton, both of whom have read several of the critical chapters, and made suggestions that have been very helpful to me. Through the kind offices of Professor Taussig I also got the benefit of criticism, on the chapter concerning crises, from the ripe experience and learning of Professor Dunbar. I take pleasure, also, in expressing my appreciation of the many courtesies shown me by the officials of the Treasury Department at Washington, and by those of the sub-treasury in New York City, especially the cashier, Mr. Maurice Muhleman, as well as by many bank officers and members of the Stock Exchange in New York City. I am indebted, moreover, to ex-Secretary C. S. Fairchild for some pamphlets ; and to ex-Treasurer C. N. Jordan for permission to reprint his article on "An Associated National Bank."

The chapters in the latter half of the book are, of course, the ones that are of most vital interest.

DAVID KINLEY.

UNIVERSITY OF WISCONSIN, Nov. 1, 1892.

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THE INDEPENDENT TREASURY.

CHAPTER I.

THE OLD BANK OF THE UNITED STATES.

FEW questions, unless we except that of the tariff, played so prominent a part in national politics down as late as 1840, as did that of a national bank. Its constitutionality and its expediency, its advantages and its dangers, its strength and its weakness as a government resource, were debated and re-debated, painted in dark and in light, looked at from every standpoint, held up for praise and ridicule, with a violence of partisan feeling that entered into but few others of the discussions which determined measures that were to be worked into our political life. It was a question on which parties lost and won ; a question on which great statesmen changed their opinions, and parties shifted their ground ; on which there was a flux and reflux of public opinion and governmental policy, until it was settled at last, nearly half a century ago, more as a party issue than as a question of scientific economics ; a vindication of party strength, and a necessary outcome of the drift of practical politics rather than a triumph of economic and financial truth over fallacy, or the consensus of concerted and convinced opinion as to the merits of the question.

It was in the third session of the first Congress that events began so to shape themselves as to point certainly to a national bank as a part of our governmental machinery. In this session, provision was intended to be made for the payment of the debts of the States, which had been assumed by the general government. The bitter hostility which the anti-federalists had displayed towards the adoption of the Constitution had been turned largely against the assumption of these debts; and now that that was decided, the same hostility was displayed against the measures of the government to provide for their payment.

Secretary Hamilton had made his famous report on the means for the support of the public credit, and had proposed a scheme for a national bank. He expressed it as his opinion "that a national bank is an institution of primary importance to the prosperous administration of the finances, and would be of the greatest utility in the operations connected with the support of the public credit." The question was discussed, not only with the bitter hostility of partisanship to which the unsettled canons of constitutional interpretation then gave freer play than they do to-day, but also with a display of earnest patriotism and splendid talent which some like to think is not seen to-day. The measure, substantially as proposed by Hamilton, was finally adopted, and in 1791 became a part of the law of the land, so that for the next twenty years the first United States bank was to be a feature of the fiscal administration of the government.

It served its purpose well, and was one of the instruments which enabled Hamilton to establish financial order, and, on the solid foundation of re-established credit, to start the country again in the direction of industrial and commercial prosperity. In the eloquent words of Webster,

"He was made Secretary of the Treasury ; and how he fulfilled the duties of such a place, at such a time, the whole country perceived with delight, and the whole world saw with admiration. He smote the rock of national resources, and abundant streams of revenue gushed forth. He touched the dead corpse of the public credit, and it sprung upon its feet."

The question of rechartering the bank came up in Congress in 1810, and was supported by Secretary Gallatin. The lateness of the session, however, prevented any action until the next year, when the application for a recharter was renewed. Despite the fact that "this bank, so far as we can judge from the information we have in regard to it, was soberly managed, successful, and beneficial in restraining the issues of the smaller banks,"¹ the bill was lost under pressure from the eighty-eight State banks then in existence. But the sad experience of the four succeeding years taught its opponents that whatever demerits characterized the plan they had defeated, yet these were far exceeded by those of the system that replaced it. The government money had been intrusted to the State banks because, after the lapse of life of the national bank, there was no other place of deposit. By the act establishing the department of the treasury, the United States Treasury had a legal, not a substantial, existence. The use of the State, or local, banks became, then, a necessity. But they betrayed their trust ; or, at least, they failed in the strain to which they were subjected in the trying times of the war of 1812. In the fall of 1814 all of the banks south of New England suspended specie payments. Nearly one hundred of them had been fiduciaries of the government, and carried down with them about nine million dollars of

¹ Sumner's "History of American Currency," p. 63.

its funds. The government, in order to meet its expenses, contracted loans which were placed at between eighty and ninety, and paid for in bank notes depreciated from ten to twenty per cent. The lesson was heeded, and when application was made for a charter for a second United States bank, the request met but little opposition. Even Henry Clay, who in 1811 had opposed a bank, gave the measure his support now, although he afterwards explained ¹ that he did so, not because he believed in it as a good thing, but only as necessary under the conditions then existing.

Accordingly, on the 10th of April, 1816, the bank act was passed. It is interesting to notice that Madison approved and signed the bill, though in 1791 he had parted political company with Hamilton on an issue identical with this, and had at that time laid down a political dogma of strict construction which his action now violated.²

The capital was \$35,000,000, one-fifth of which was to be subscribed by the government in coin or "stock;" one-fifth was to be in specie, and the other three-fifths in specie or government stock. The bank was to pay the government a bonus of \$1,500,000; it was to be the depository of the public moneys, and was required to disburse them, free of charge, in any part of the country. Five of the twenty-five directors were to be appointed by the President. The charter was, as before, for twenty years. On the 1st of January, 1817, the bank opened for business, with the country on the brink of a great monetary crisis, but "too late to prevent the crash which followed." The management of the bank during the first two years of its existence was far from satisfactory. It aggravated the troubles of

¹ Benton's "Thirty Years' View," ii. 100.

² Benton says he yielded to the authorities without surrendering his convictions. "Thirty Years' View," i. 323.

the financial situation instead of relieving them. Specie payments were nominally resumed in 1817, but the insidious canker of inflation had eaten its way into the arteries of business, and in the crisis of 1819 came another suspension, that lasted for two years. "In the first two years of its existence the great bank was carried to the verge of bankruptcy by as bad banking as was ever heard of. Instead of checking the other banks in their improper proceedings, it led and surpassed them all. A clique inside the bank was jobbing in its shares, and robbing it to provide the margins. Instead of rectifying the currency, it made the currency worse. Instead of helping the currency out of the distress produced by the war, it plunged the country into the commercial crisis of 1819, which caused a general liquidation, lasting four or five years. . . . It is almost incredible that the legislation of any civilized country could have opened the chance for such abuses of credit, banking, and currency as then existed." ¹ On April 1, 1819, just fifteen months after the bank began its career for the purpose of restoring financial health to the country, the history of its operations was told in the following statement of its condition: "Specie, \$126,745.28; notes, \$6,000,000; due other banks, \$79,125.99; due government, \$500,000; due Barings, \$900,000. . . . The New York and Boston branches were in worse condition. The Baltimore branch had given \$3,000,000 discounts, of which the parent bank had no knowledge, apparently from corrupt motives. \$1,671,221 were lost there. The total losses to date were \$3,500,000. Dividends for \$4,410,000 had been paid, of which \$1,348,553 had been gained by interest on public securities. Net loss over \$500,000. The bank now took the most energetic meas-

¹ Sumner's "Andrew Jackson," p. 233. (American Statesmen Series.)

ures to save itself, and in seventy days was once more solvent, but it had ruined the community. The 'golden age' was now far in the past, and was seen to be only a gilt paper age after all. The ruin was almost universal."¹

It was only by a desperate effort that the bank finally weathered the storm brought on by its own mismanagement and that of the State banks.

After the recovery, a period of several years of prosperity followed, and the management of the bank was thoroughly reorganized and sound. From this time on until the great "Bank War" its affairs seem to have been conducted with a view to performing its duty to the government as well as to its individual stockholders, and it rendered such aid to the public, directly and indirectly, as entitled it to respect and fair treatment on the part of the servants of the people. Thus it redeemed its bad past, and had come to be regarded as a permanent fiscal agent of the government, the existence of which would be continued as a matter of course. But the bank controversy was not yet over. It was about to be revived, and to become a prominent issue in a period of our national politics more distinguished for the bitterness of its personal animosities than perhaps any other in our annals.

To a complete understanding of the origin of this bitter strife, we must notice not only the events and issues of the political turmoil out of which it immediately emerged, but also a deeper influence, which really lay at the bottom of the political agitation of the time. That influence, from want of a better name, we may call the American spirit. What this term implies may be best understood by briefly recalling the conditions of the country and people of that time.

¹ Sumner's "History of American Currency," p. 78.

With a population of less than twenty millions, scattered over a vast territory, with abundance of unoccupied land that could be secured on easy terms, and with a population that was mainly agricultural, class lines were but lightly drawn, society was more democratic than it is now, and the people were in reality, as well as in name, more nearly "peers" than they are to-day. The equality of the Constitution was a realized fact, especially in the North. Social equilibrium was more stable, because it was not disturbed by the existence of at least a disproportionate number of those who find it difficult to make a comfortable living. Comfort and a high standard of living were the lot of the great majority. Politically, the spirit of the people was intensely democratic. There was a marked feeling against anything that looked like aristocracy, that had the semblance of creating class distinctions, or that even emanated from, or had any connection with, the aristocratic institutions of the Old World. In addition to these conditions, perhaps a partial consequence of them, was a widespread belief, which has not yet wholly disappeared, that the country, from its peculiar form of government, had little or nothing to learn from the history and experience of the nations of the Old World. We looked upon ourselves as a "favored nation," with a destiny to be worked out on new and independent lines. There was, withal, even then, the "hurrah element" in politics, an inevitable element of popular government, which, adopting some catch-word or phrase as a rallying cry, would at times sweep to victory on a tide of popular feeling and with a policy, or no-policy, that set reason and the accumulated experience of years at defiance. In a way, the American Eagle screamed louder then, with less to scream about, than he does to-day. And the party leader who could take

advantage of this democratic prejudice had an easy road to success. True, the sober second thought of the people, or the fruits of a mistake, would occasionally come in time to prevent serious disaster. And, moreover, our gigantic resources and unparalleled opportunities have at times brought us safely through crises, despite our own bad management. But if there be such a thing as national luck, we in this country certainly must have enjoyed a good share of it, since, in spite of stupendous blunders, we have hitherto managed to escape lasting national disaster.

One phase of this anti-aristocratic feeling was manifested in an intense dislike of banks of issue. This prejudice has cropped out at times all along in our history. Even to-day, after an experience of a quarter of a century with a bank currency unsurpassed for safety and convenience by any in the world, the same prejudice cries out against the supposed privileges of our National Banks, as banks of issue. Our agricultural classes, especially, seem to think that these deprive the people at large of something that rightly belongs to them. The resolutions of recent conventions of the Farmers' Alliance unanimously favoring "the abolition of all National Banks" are familiar to all observers of contemporary politics. It is true, of course, that the National Banks have a special privilege in being allowed to make a profit on issues secured, not by their own integrity and stability, but by the credit of the government. But the value of this privilege now is small, and it can always be easily regulated so that the loss to the people from letting the banks, instead of the government, issue notes, will be more than offset by the taxes collected on the bank issues, and by the avoidance of the peculiar dangers of government paper.

In this feeling against the banks, again, experience, whether of our own country or of foreign lands, seems to count for nothing. Evidently, the existence of such a feeling, whether reasonable or not, offers fine scope for party manipulation, of which, as we shall see, the political managers of the "Bank War" were not slow to take advantage.

In fact, the spirit of democratic equality and the prejudice against banks played a large part in the famous political turmoil that resulted in the overthrow of the second United States Bank, and in the ultimate establishment of our present sub-treasury system.

Doubtless it was largely the gratitude of the people for his military services, rather than any realizing sense of his administrative ability in civil affairs, that first placed Andrew Jackson in the presidential chair. It was his success in making his attack on the bank appear as a defence of the interests of the people and government against insidious assaults of the "moneyed power," which, combined with the spirit of hero-worship that exists intensely, though spasmodically, in popular governments, raised him to that high honor a second time. It is one of the numerous instances of the determining influence of the "shouting element" in popular politics. For Jackson's acts during his first term, so far as they related to finance at least, can hardly be dignified by the name of a policy, or find any justification in political science or experience. It is true, indeed, that in the state of affairs which prevailed at the time, his conduct was the best he could have followed for the future interests of the country. For his lack of financial ability would probably have caused disaster if he had attempted a positive, constructive, plan of action. It was well, therefore, that he was

content to destroy and leave reconstruction to more skilful hands.

And yet the country owes a debt of gratitude to President Jackson, because, even although he was swayed by the political circumstances of the period, and by his own intense personal convictions and prejudices, he yet was a veritable bulwark of popular rights against the encroachments of the money power which was exerted when the bank degenerated into politics. We may not credit him with a foresight of the evils that probably would have arisen had the single national bank monopoly been perpetuated; but we may be thankful to him for rendering them impossible by destroying, for whatever reasons, the source whence these evils would have sprung.

The events of what is known as the "Bank War" are familiar to all students of American history, so that a detailed account of it is not necessary.¹ But it will be well, for our present purpose, to recall its main features, because it was really the first step in the logical sequence of events that led to the establishment of the Independent Treasury.

As already said, the ten years following the revulsion of 1819-25 were years of almost unbroken prosperity. The bank management was sound, government credit was excellent, the public debt was rapidly reduced, and the industrial and commercial situation was healthy. The question of the continuance of the bank was not under discussion. In fact, scarcely any mention of the subject

¹ For a general survey of the whole matter, see von Holst's "Constitutional History of the United States," vol. ii.; Schurz's "Henry Clay" (American Statesmen Series); Sumner's "Andrew Jackson" (American Statesmen Series); "Thirty Years' View;" Bolles's "Financial History of the United States;" Young's "American Statesman;" Story's "Commentaries on The Constitution," Book III. chapter xxv. See also bibliography in Lalor's "Cyclopædia of Political Science," article "Bank Controversy."

was made until President Jackson referred to it in his message of December, 1829. In this message he reopened the question of the constitutionality of the bank, but the committee to which this portion of the message was referred in the House of Representatives made a report favorable to the institution.

There seems no reason to doubt the honesty of Jackson's opinion that the bank was unconstitutional, and at first he probably had no feeling in the matter except that which sprang from his convictions on this point. Certain events, however, increased his hostility to the bank, and strengthened his resolution to destroy it. The principal of these were the disagreement that arose between Secretary Ingham of the Treasury, and Mr. Biddle, president of the bank, concerning the management of the branch bank at Portsmouth, N. H.; the delay of three months in paying five millions of three per cent. government stock which fell due in July, 1832; the refusal to pay drafts on the branch banks except at the branches themselves; the action of the bank in the matter of the French indemnity;¹ and the alleged interference of the bank in the presidential campaign of 1832.

When President Jackson first attacked the bank, the weapon he chiefly relied on was the alleged unconstitutionality of the charter. It was around this point that the great battle of earlier days had been fought and won, when Hamilton finally succeeded in persuading Congress to establish the first bank. That was the first of the many rapid strides by which the power of the federal government has been gradually extended by the application of that doctrine of "implied powers" which has been so aptly called the "chief dynamic principle of our Con-

¹ For an account of this interesting episode, see Appendix, p. V.

stitution." But the day, now long since lost to sight, had already passed when an effort could be successfully made to check the assumption of any authority by the general government on the plea of "necessary," or "implied," powers.

Foiled in this line of attack, General Jackson turned his attention to securing evidences of mismanagement and illegal procedure, and it was on the basis of alleged unsoundness that he justified the removal of the deposits from the bank in 1833. But his effort to prove mismanagement was a failure.

Speaking merely from the point of view of sound bank management, in the list of charges that had been piled up since he first attacked the bank in 1829, "we can find nothing but frivolous complaints and ignorant criticism successfully refuted, except when we touch the branch drafts."¹ There were, indeed, many points of bad management, but they were mistakes to be corrected, not to be made reasons for destruction. The usurpation of the important business of the bank by the Exchange Committee was wrong; the discretion allowed President Biddle in the struggle was too great; the policy of temporarily loaning the cash in the drawer, on collateral securities, without interest, was exceedingly bad business policy; these and similar administrative mistakes were the first steps in the career of the bank that led to its downfall and ruin. It was guilty of great financial errors, but they were not beyond remedy; and that they formed a reasonable ground for such hostility as was displayed, is untrue. And it may fairly be questioned, even although we deny the legitimacy of the point, whether that very hostility was not a powerful force in driving the institution into the

¹ Sumner's "Andrew Jackson," p. 267. (American Statesmen Series.)

road that led to ruin. It is not proven that the funds of the bank, acknowledged to have been used in legitimate methods of self-defence, were ever devoted to the uses of political partisanship at all. It is hardly correct to say that the bank made a panic in 1834, for the tangible grounds of a panic were absent; and the crisis that came, real and distressing as indeed it was, may be fairly attributed, less to contraction by the bank, than to the fears engendered as to the possible consequences of the enmity of the Executive.

In the struggle with the President, the bank forgot that it was more than a private institution, that one of the purposes of its existence was the service of the government, and that in its capacity of fiscal agent it owed the country a duty and service with which its private interests should not have been allowed to interfere. Yet even here, while it cannot be justified, it might claim to be excused, on the ground that the government itself, whose interests it had in charge, was seeking to cripple its power to conserve these interests.

For most of the years of its existence the bank gave the country a more "uniform currency" than existed at its creation; it facilitated the fiscal operations of the government; it collected the revenues; it equalized exchanges; and it gave a healthy tone to the business of the country. But neither its principles nor its acts were perfect. It was not a panacea for industrial distress, nor a preventive of its occurrence. It may justly be charged with sins of both commission and omission, and the path it finally trod, whatever the force that impelled it thereto, can but make us rejoice that its custody of the people's money ceased before it leaped over the precipice of ruin on which it for a long time stood, and over which it finally

plunged. The first two or three years of its life were marred by acts financially so vicious and in their results so injurious to the people, that we stand amazed at the brazenness of its evil doing, and wonder how banking so deliberately selfish and pernicious to the interests of society, could have been permitted by the law. But it afterwards assumed a course of integrity, and redeemed its past by valuable service, until the time when, in its old age, it again forgot the principles of honor, and entered on the period of decay. There were in its management forces at work that, if it had been let alone, would probably have finally worked its ruin. But they could have been checked if the government had been friendly instead of hostile, and if the bank had kept its policy up to the high-water mark of business integrity. As it was, the course of the Administration aided in hastening the end.

In 1835 the "Bank War" may be said to have come to a close, so far as actual conflict was concerned, and the President had won. The remaining acts of the bank were only the making of the arrangements of surrender. When the time came, however, for the charter to expire, the bank did not give up its corporate existence. It obtained a charter from the State of Pennsylvania, by means that would not bear a critical examination according to the standards of either business or political integrity. Instead of winding up its affairs and paying the government the money it owed, it transferred all its effects to the new corporation, and continued business as before. It even put into circulation again the notes which it had issued as Bank of the United States.

It may be easily believed that the institution that could do this had already sunk far below the plane of strict business honor. In fact, the affairs of the bank were at this

time very dishonestly managed. No means now seemed too corrupt for it to use in the accomplishment of its purposes, and if it had now been in control of the government resources there probably would be a sad story to tell of their loss. The inevitable end came in the crash of 1839. The bank at this time was engaged in operations for which it merits the severest condemnation, and against the results of which it was not able to sustain itself. It closed its doors in October, 1839, opened them for a short period afterwards, and finally suspended in February, 1841. It managed to pay its debts, but its whole capital was lost. President Biddle was sued for over a million dollars, paid out during his administration, for which no vouchers could be found. He and several directors were indicted by the Grand Jury, but were discharged.

The removal of the deposits to State banks, by President Jackson, in 1833, was the voluntary use of a system which would necessarily have come into operation at the expiration of the bank charter. For a few years the system was used without legislative sanction, and its compulsory employment, caused by the downfall of the United States Bank, was the next step towards the policy of an independent treasury. To trace the history of this step and its influence in the evolution of the Sub-Treasury will be our effort in the next chapter.

CHAPTER II.

THE STATE BANKS AS DEPOSITORIES.

THE use of the local, or State, banks as depositories of the public money was not new. The system had been employed from the time of the adoption of the Constitution until the organization of the first United States Bank. It was the inconveniences and risks of the system that partly influenced Hamilton in his efforts to establish the national bank. The State banks had been used again between 1811 and 1816, the interim between the expiration of the life of the first national bank and the charter of the second, and again they had proved so unsafe and so false to their trust that not only did the bank charter meet with but little opposition, but the bitter experience of the five intervening years had converted some of its former opponents into friends.

There appeared no reason for thinking that the local banks would be more faithful to their trusts if they should be given another trial than they had been before. In fact, if we may trust Benton, such was, perhaps, President Jackson's opinion, for Benton seems to intimate¹ that he regarded the plan of using these banks as depositories as a temporary expedient, and looked to the ultimate separation of the government from all banks. But if the President did really contemplate this separation, he saw that its accomplishment then was an impossibility.

¹ Cf. "The View," i., 554.

Strictly speaking, the government deposits were not "removed" from the United States Bank in 1833. The government simply ceased depositing its receipts there; and the withdrawal of what was already in the Bank took place in the ordinary course of government business.

The use of the State banks as depositories, began in October, 1833. There was no law regulating the use of these banks, and therefore the public moneys were for a time practically under the control of the President and the Secretary of the Treasury. It fell to them to select the banks to be intrusted with the public deposits and to name the conditions on which they should be received and kept. Contracts were made by the Secretary with selected banks, according to which the banks were to give security for the government money whenever the deposits should exceed one-half the bank capital paid in. In addition, the government reserved the right to demand security whenever it was thought advisable, even if the deposits did not exceed the sum mentioned. The banks furthermore agreed to perform for the government all the services formerly rendered by the Bank of the United States.

The banks also undertook, by mutual agreement, to honor one another's notes and drafts, thus seeking to provide a "general currency at least as sound as that of the Bank of the United States." They were forbidden to issue small notes, and were required to keep one-third of their reserve in specie. The problem before the government was to make regulations which should secure the safety of its deposits, and to provide a circulation of State bank notes to replace the thirty-five millions¹ soon to be withdrawn by the national bank.

One immediate result of the refusal to recharter the

¹ See Young's "American Statesman," p. 666.

national bank, was a "mushroom crop" of local banks all eager for the government patronage. In his report, submitted in December, 1834, Secretary Taney urged on Congress the necessity for an act regulating the deposits, but nothing was done about the matter. A bill for the purpose did, indeed, pass the House, but met its death in the Senate on the report of the finance committee that it ought not to pass, mainly because its passage would indicate acquiescence on the part of the Senate in the course pursued by the Executive. The provisions of the bill were also regarded as inadequate for safety. It was not until 1835 that Congress took any action on the matter of regulating the deposits. Accordingly, from October, 1833, until that time, or for about two years, they were kept in the State banks without authority of Congress, a fact which the President's opponents had unceasingly used as an argument against him. The bill finally passed was identical with that which had been defeated in the Senate two years before. By this act the banks which could not pay specie were dropped from the list of deposit banks. A circular letter of the Treasury Department to the deposit banks, Sept. 26, 1833, said: "The deposits of public money will enable you to afford increased facilities to commerce, and to extend your accommodations to individuals." It also recommended "merchants engaged in foreign trade" as the most deserving recipients of extended credit. Evidently the prestige of foreign trade was yet tolerably high, and its fair name had not yet suffered the obloquy that a "Chinese" tariff wall has brought upon it in these latter days. The invitation of the Secretary of the Treasury to the banks to use the public money as a basis for enlarging their discounts is interesting, in view of the fact that such a use of them by

the national bank had constituted one of the chief grievances against it in the minds of the supporters of the administration. The hint was not needed, however. New banks came into existence every day, and all increased their discounts rapidly. In the eight years between 1830 and 1838, the bank capital of the country increased from \$145,192,268 to \$290,772,091; deposits rose from \$55,559,928 to \$127,397,185; and discounts and loans, from \$200,451,214 to \$525,115,702.¹ The signs of the coming storm had been gathering for a considerable period of time. Imports had swelled from \$101,030,000 in 1832, to \$189,980,000 in 1836, an increase of 87 per cent. The customs receipts of 1836 exceeded by 44 per cent. those of the year 1834, and the sales of the public lands for 1836 were, for the first time in the history of the country, in excess of the customs receipts. The large importations were in this case the indication of rising prices, of which foreign manufacturers were hastening to take advantage. The upward trend of prices came from the inflation of the currency by excessive issues of bank-notes. The increased sales of public lands were another sign of the inflation. It was by means of these increased sales that the government was enabled to get rid of its debt and found itself the possessor of the surplus of millions that were distributed, or "deposited," among the States in 1837.

But, as usual, these signs of a coming storm were unheeded by all save a few. In 1836 came the inevitable results — a marked rise of prices and rife speculation. The inflation bubble grew rapidly greater until, in 1837, it burst, scattering ruin in all directions. Nearly all the banks failed. They had \$32,000,000 of government de-

¹ Cf. Sumner's "History of American Currency," p. 123; Bolles's "Financial History of The United States," vol. ii., p. 346.

posits, \$25,000,000 of which were paid in notes depreciated ten per cent., causing a loss of two and a half millions.¹

The catastrophe was undoubtedly hastened by several acts of the Executive, which received severe condemnation at the time, but must, in our better light, meet with approval and commendation. By order of the Secretary of the Treasury, the receipt after Sept. 30, 1835, of bank-notes of a denomination less than five dollars, had been prohibited. In the following year their payment to public officers or creditors was prohibited, and no notes less than ten dollars were to be received or paid by the government after an appointed date, July 4, 1836. Moreover, the deposit banks were ordered to make one-fifth of every payment which did not exceed five hundred dollars, in gold, if so desired by the creditor. They were also requested to cease issuing notes below the denomination of five dollars, by July 4, 1836, and below ten dollars, by March 3, 1837. The purpose of these regulations was "to render the currency of the country more safe, sound, and uniform." Of course the immediate result intended to be produced was the displacement of small notes by coin. The orders were an effort to create a specie circulation. And within the limits of the denominations chosen there is no more efficacious method of replacing specie with paper, or *vice versa*, than the prohibition of such coins or notes of the assigned denominations as are in common use.

These orders of the Treasury Department were supplemented by the famous "Specie Circular," issued July 11, 1836, which raised public excitement to a higher pitch, probably, than any other incident in the bank war, unless we except the removal of the deposits. The object of this circular was to prevent the absorption of the public

¹ Finance Report, 1838.

lands by speculators, and to check the accumulation in the Treasury of bank-notes, many of which would doubtless prove inconvertible. It required payments for public lands to be made in gold and silver. "The best justification of this measure was that ten millions of paper on its way to the Land Office was arrested by this circular." Between Aug. 16 and Dec. 15, exceptions were to be made in cases of purchases not greater than three hundred and twenty acres. After the 15th of December the operation of the order was unconditional.

This famous "circular" was the pin that pricked the bubble of inflation. It is unfair to say that the responsibility for the panic that followed must be laid at the door of these orders. The panic was the result of the tremendous inflation, and would have come in any case. The specie circular simply aided in hastening the explosion, thereby probably making its evils less than they would have been had credit been allowed to be inflated to its self-bursting point. Moreover, the circular had the good effect of saving the public lands from the grasp of speculative monopoly, and of making the losses of the government less than they would have been had it gone on receiving worthless notes. The measure had a beneficial effect from the social standpoint also, in saving "the new States from a non-resident proprietorship, one of the greatest obstacles to the advancement of a new country, and the prosperity of an old one."¹

Another measure that had a large influence in precipitating the crisis was the law for the deposit of the surplus revenue among the States.² Speaking of this, Schurz says:³

¹ Jackson's Message, 24th Congress, Second Session.

² For a full account of this, see Bourne's excellent essay on "The Distribution of the Surplus Revenue in 1837."

³ In his "Henry Clay," vol. ii., p. 121.

“The effect of the law was to hurry on a crisis. The distribution of the public deposits among the ‘pet banks’ had served to place capital arbitrarily in different parts of the country, without much regard to the requirements of legitimate business. The regulations imposed upon the deposit banks by the new law, especially the provision that the public deposits in no one bank should exceed three-fourths of its paid-up capital, led in some cases to an equally arbitrary dislocation of funds from banks which had an excess of deposits to other banks in other places which had less than the amount allowed. But the distribution of the treasury surplus among the several States produced this effect of arbitrary dislocation on a larger scale. On Jan. 1, 1837, the surplus available for distribution amounted to \$37,468,859. That surplus was nominally in the banks, but really in the hands of borrowers who used it for legitimate business or speculation. Withdrawing it from the banks meant, therefore, withdrawing it from the business men or speculators who had borrowed it. The funds so withdrawn were made for some time unavailable.”

The failure of the banks did not occur, however, until May, 1837, after Jackson had retired from the presidential chair. The general suspension necessitated a meeting of Congress; for the federal officials could receive and pay out the notes of specie-paying banks only; and as the deposit banks had suspended with the others, the fiscal machinery of the government was stopped and the action of Congress was therefore needed. Accordingly, President Van Buren summoned an extra session for Sept. 4, 1837. In his message the President recalled the history of the various methods of keeping the public money, and remarked that although the advocates of the use of national and State banks were still to be found, “it is apparent that the events of the last few months have greatly augmented the desire, long existing among the people of the United States, to separate the fiscal operations of the government from those of individuals or

corporations." Van Buren himself argued against the re-establishment of a national bank, on the ground that the people had declared against it in two elections. He maintained, too, that the United States Bank did not, or could not, prevent over-issue and depreciation, an assertion which could hardly be sustained by the facts, at least in the days of the honest management of the bank's affairs. He further declared that it was no part of the government's business to regulate "domestic exchange," and therefore advocated the entire separation of the government from banks, proposing that it collect, keep, and disburse its own funds. The possibility of doing so was greater than ever before, and continually growing more so as the country developed, because the difficulties of transfer were constantly being lessened. This was a recommendation of the Independent Treasury, as it was called by its friends, or Sub-Treasury as its opponents named it. The system was, in fact, virtually in operation already. Secretary Woodbury informed Congress in his report, that although on the suspension of specie payments six banks had been retained as depositories, part of the public money was kept as a special deposit in Washington, part at the mint, and the rest with the officers collecting it. The Secretary urged on Congress either an enlargement and adaptation of this method, which he was employing on his own responsibility, or a new organization of commissioners and receivers-general, "to gather the collections to more central points, and to keep the public money, or such as could not be kept safely and expended conveniently in the hands of the collecting officers."

The President and the Secretary were not alone in suggesting plans of relief and future action. Congress was deluged with memorials and petitions suggesting plans of

one kind and another. Some had points of merit, but most were characterized by that sublime indifference to history, experience, and economic law, that is a marked feature of the empiric schemes of which, in all such crises, political charlatanism and ignorance are prolific. One interesting proposal¹ emanated from Maryland, the author being Littleton D. Treackle. He proposed "in fact a National Bank of Deposits and Exchange, without the faculty of discounting or circulation, in connection with a system of State institutions for the keeping and distribution of the Federal revenue, under guards and guaranties commensurate with the wealth and credit of the several States," etc. These State institutions were to be departments of the government and not corporations, and the basis of their circulation should be specie. For the issue of notes it was proposed to appoint commissioners, State and Federal, to "devise and prepare" a national currency in convenient denominations from twenty to one thousand dollars, which should be apportioned among the States in proportion to their electoral votes, not exceeding \$100,000 for each Senator and Representative. Each State was to receive its share of this valuable paper on condition of the annual payment of one per cent on the amount required, and on providing not less than one-fourth of that amount in the legal coin of the United States as a basis of its operations. The principal institution of each State was to have the custody of the public money and to provide for its disbursement.

This proposed national currency was to be receivable for all public dues, but was not intended to serve alone as money, but to be only auxiliary to specie. The amount suggested for issue was \$28,000,000. Evidently these

¹ See Sen. Doc. No. 6, 25th Cong., 1st Session.

“departments” would have been simply banks whose notes were furnished by the government, subject to a tax of one per cent. on the amount issued, and secured by a deposit of twenty-five per cent.

The schemes actually considered in Congress, however, were three : the revival of a national bank ; the revival, or continuance, of the deposit system established by the act of June 23, 1836 ; and the keeping of the public money by public officers. The last, or Independent Treasury plan, which, as already said, received the support of President Van Buren, had been proposed as long ago as 1834, by Senator Gordon of Virginia. It was dropped at that time from lack of support, but was now brought forward as the measure of the Administration by Senator Silas Wright¹ of New York, who had been a staunch and consistent supporter of the Jacksonian financial policy. The bill now proposed was entitled a bill “imposing additional duties as depositaries, in certain cases, on public officers,” and its provisions, as amended during discussion, were essentially those that afterwards became the law of the land in the final establishment of the Constitutional Treasury, or Independent Treasury, or Sub-Treasury, as it was variously called.

The measure was keenly debated, the “specie clause” being the main object of attack. The adoption of this clause, it was argued, would leave the bank notes in the hands of the people and give the specie to the government. It was argued that convertible State bank notes should be received for government dues ; that the adoption of the independent system would render the public money insecure ; that it would open the way to favorit-

¹ See Gillett’s “Life and Times of Silas Wright.” Vol. i., chap. lxiv. and elsewhere.

ism, in such ways as, for instance, accommodating political friends in the payment of customs; that it would contract the currency; and finally, that it would increase executive patronage and so give the President too much power. The Whigs, moreover, represented the measure as an attack on the banks and the whole credit system of the country, and designated it as an "experiment," novel and contrary to the habits of the people. Webster characterized the bill as a backward step, from developed civilized credit to bolts and bars. "The use of money," he further said, "is in the exchange. It is designed to circulate, not to be hoarded. All that government should have to do with it is to receive it to-day, that it may pay it away to-morrow. It should not receive it before it needs it; and it should part with it as soon as it owes it. To keep it, that is, to detain it, to hold it back from general use, to hoard it, is a conception belonging to barbarous times and barbarous governments."¹ That is sound doctrine even for to-day.

On the other side, it was urged that under the proposed system the public money would be more secure, that a specie circulation would be promoted, and the currency made more uniform; that the action of the banks had made the separation of the government from them necessary, and that a government was not worthy of its name if it could not manage its own finances. Further, it was maintained, the failure of the banks might at any time sweep the public deposits away and jeopardize the credit of the country; and, finally, the Independent Treasury system would be more plain and simple in its arrangements, and truer to the spirit of the constitution. The bill succeeded in passing the Senate, but met with defeat

¹ Speech on the Sub-Treasury, del. in the Sen. Mar. 12, 1838.

in the House, being laid on the table by a vote of 120 to 107. The contest over it showed the Whigs ranged in defence of the use of State banks, which they formerly opposed, and the friends of the Administration supporting the measure which but lately they had condemned. During the three months that elapsed before the first regular session of the twenty-fifth Congress began, the measure did not apparently gain aught in the estimation of the public. The subject had, indeed, been a matter of wide and earnest public discussion; and on it, aside from mere political argument, much that was logically sound had been said and written. The most elaborate defence of the plan was set forth by Wm. M. Gouge in a pamphlet¹ which deserves consideration as the best exposition of the aims and hopes of the promoters of the system.

Writing of the chaos of repudiation and ruin into which business had then fallen, the author quaintly compares the condition of the country to that of the man out of whom the devil was driven but returned with "seven other spirits more wicked than himself," so that the "last state of that man is worse than the first." The devil driven out was, of course, the United States Bank, and the more wicked spirits typified deposit banks, which had wrought such widespread havoc.

Gouge estimated the number of depositories that would be necessary for the transaction of the business of the Treasury at thirty-six, their locations to be those of the banks formerly used as depositories. He thought that the expense would be less than that of the banks, probably aggregating not more than \$101,600. "So plain would be the accounts," he goes on to say, "that we might choose

¹ "An Inquiry into the Expediency of Dispensing with Bank Agency and Bank Paper in the Fiscal Concerns of the U. S." Philadelphia, 1837, pp. 56.

for chief book-keepers of these Sub-Treasuries the disciples of the ingenious cordwainer who daily threw into the leg of one boot a slip containing a statement of his receipts for the day, and into the leg of the other a slip containing a statement of his expenditures."

The probabilities of loss, Gouge declared, would be less with independent depositories than with banks; for there would be less loss from fire, since the deposits would be in specie; less from speculation, because the accounts would be simpler; and less from robbery because thieves could carry off but little of the metallic money, on account of its weight! To the objection that the system would lock up money, the author replied that there should be no surplus to lock up. The inconvenience of transfer could be obviated, he declared, by the use of drafts; and gold and silver payments could be easily maintained. Gouge held, contrary to the general opinion, that the system would decrease executive patronage. These views of Gouge's are exceedingly interesting because they show how widely even the most intelligent of the advocates of the Independent Treasury miscalculated the scope and influence of the system, and underrated the growth of the fiscal life of the government.

Congress assembled again on the 4th of December. President Van Buren again recommended his favorite measure, and again it was brought before the Senate by its champion, Mr. Wright, but only to have its success in the Senate once more offset by defeat in the House of Representatives. The debate was participated in by Clay, Calhoun, Webster, and others, in speeches of the power and brilliancy that characterized their great authors, but the arguments were mainly political.

The subject was again brought up, in the session of

1839-40, after it had been urged, as usual, by President Van Buren in his message. And then at last the bitter struggle came temporarily to an end. The Independent Treasury was established. It barely escaped its former fate in the House; for it passed that body, June 30, 1840, after long and bitter debate, only by the small majority of seventeen, in a total vote of two hundred and thirty-one. According to the act, one-fourth of all government dues had to be paid in specie after June 30, 1840, and an additional one-fourth had to be so paid each successive year until the whole should become thus payable.

Thus was at length established the system for which Van Buren had risked his office — risked and lost. For the idea was adopted by him as his own, and although he pushed it perseveringly on to success, in the very achievement of that success “it helped sink the originator.” But the country owes a debt of gratitude to him for his persistent adherence to a “hard-money” system. The severance of the government from the banks, as banks were then constituted, relying largely as they did on government support for the convertibility of their notes, was the means of removing a large element of uncertainty from the credit of the government, and of insuring to the currency the “soundness” for which the people had struggled so long in vain. It was, therefore, an act of wise statesmanship, commendable to its promoter, and worthy of the gratitude of all who believe in maintaining the credit of the country; and a large share of this credit must be accorded to Mr. Van Buren; for although he fell, his fall was not the reward of a bad policy, but rather of the political expediency, party exigency, and ignorant prejudice which in all governments so often pull large men down to set small ones up, and supplant

sound and statesmanlike policies with those that are weak and charlatanical. For it certainly was his adherence to his fiscal policy which wrecked Van Buren's Administration on the lee shore of adverse popular opinion, and which, altogether aside from the ephemeral feelings and fantastic exhibitions that influenced the masses in the next presidential campaign, created in the minds of the soberer portion of the nation the current of opinion on which Harrison was borne to victory in 1841.

The shortness of Harrison's Administration prevented any action on the Sub-Treasury and the currency. But Tyler, on his accession, declared his intention of adhering to the policy which Harrison and the party were known to favor. Under a proclamation which had been issued by Harrison, Congress assembled in special session on the last day of May, 1841. In calling attention in his message to the state of the revenue and the currency, Tyler proposed no definite plan of reform. The people had, he thought, sustained Jackson in his course against the national bank; the State bank deposit policy and the Sub-Treasury had both been condemned; therefore he left the whole question to Congress, saying:—

"I shall be ready to concur with you in the adoption of such a system as you may propose, reserving to myself the ultimate power of rejecting any measure which may, in my view of it, conflict with the Constitution, or otherwise jeopard the prosperity of the country."

Bills were immediately introduced into Congress for the repeal of the Sub-Treasury act, and for the incorporation of a bank. As usual, a large number of petitions and resolutions for and against the movement were sent to Congress, but, as usual also, they could be regarded only as expressions of party fealty, and not as intelligent opin-

ions based on careful consideration of the merits of the question. During the year since its establishment the Sub-Treasury system had worked more smoothly than might have been fairly expected. Secretary Ewing took occasion, in a report of July, 1840, to argue against the system. He maintained that it exposed the government funds to risks of loss; that it was cumbrous, expensive, and inconvenient; that it tended to centre disbursements in some Eastern cities, especially New York; and that it injured business by contracting the currency. He reviewed the history of the government policy in the matter of keeping its own money, recalling the fact that there had been two periods of twenty years each in which a national bank was used, and intervals, comprising a period of nine years, in which State banks were employed. During the rest of the time the funds were administered by individual officers and agents.

The Secretary said that the losses under the State bank system from 1811 to 1816 had been about one million of dollars;¹ from 1833-1837 there had been no money loss, but much inconvenience. There had been no loss through either of the national banks, and no delay or expense in transmitting public money, so far as the banks were concerned. The Secretary recommended the establishment of a bank, for which he afterwards submitted a plan the fate of which is told below. In fact, the results of the trial of the Sub-Treasury failed to justify any of the prophecies of the Whigs. It may be fairly said, however, that this was the result of circumstances rather than of any merits of the system, for the conditions were, on the whole, favorable to success. However, the Sub-Treasury Act was repealed Aug. 13, 1841, and a bill was imme-

¹ Finance Reports, 1833 and 1837.

diately reported by Henry Clay for the establishment of a bank. Clay personally preferred a bank after the old pattern, but yielded to the wishes of the President and his friends, and recommended an institution substantially such as they desired. The course pursued by President Tyler with reference to the establishment of the bank is curious but painful reading. He vetoed Clay's bill, though it had been passed by both Houses in the confident expectation of his approval. He asked his Secretary of the Treasury to draft a bill, and his request was complied with even to naming the proposed institution to suit his whim. He approved the plan when read at a Cabinet meeting. Congress passed it unchanged except in two points, and sent it to him. He talked over it, wept over it, prayed over it—and vetoed it, on constitutional grounds that militated equally against the bill of Secretary Ewing, which he had approved. The veto fell like a thunderbolt on his party, and it deserted him. All the members of his Cabinet except Webster resigned, and the country beheld the novel spectacle of a President without a party. He broke his faith on the rocks of vacillating purpose and conceited ambition, and, as he deserved, was left stranded on them, alone.

Yet it was fortunate, perhaps, that both the bills mentioned were vetoed, for either of them would have been likely to work great mischief to the country. Some of the provisions of Ewing's proposed plan were as follows: The bank, which must be in the District of Columbia, was to have a capital of thirty million dollars. It could establish branches in the different States, but only with the consent of the States and under their control. The government subscription of six millions was to be in "stock" created for the purpose, and the States were to be allowed the

privilege of subscribing in a similar way. The bank was to perform the usual duties of the "fiscal agent" of the government, and all government debts were to be discharged by checks payable in the notes of the bank, which were also receivable for government dues. Dividends were to be limited to six per cent., and all surplus above two millions of dollars was to go to the government. The bank could not incur a debt of over twenty millions more than its deposits, nor make loans to more than one and three-fourths times its capital. Its specie reserve must be at least one-third of its circulation. Its dealings were to be limited to coin, bullion, notes, and inland bills of exchange; and no loan could be made for more than six months, and no debt could be renewed. The limit of a government loan from the bank was to be three millions, for not more than six months. The charter was to be, as usual, for twenty years. Congress, in adopting the plan, raised the dividend rate to seven per cent., stopped all discounts and loans when the note circulation amounted to three times the specie on hand, and rejected the provision requiring the consent of the States to the establishment of branches.

In criticism of this plan it may be said, first, that if the government is to own shares at all, it should pay in its capital like any other stockholder. This same mistake was made in the case of the United States Bank. In its financial aspect it resembles the conduct of railroad "promoters" who issue stock certificates, a certain amount of which they divide among themselves without paying in a dollar of the capital. It was an effort to share the gain without sharing the risk of loss. The burden was thrown on the other stockholders. Still, this was less vicious financially than some of the other provisions.

The absolute prohibition of the renewal of debts, the debt limitations, and the support given to the credit of the bank notes by the government credit, were bad features. The limitation of possible loans to the government was a ridiculous attempt to check the possible abuse of executive power and patronage. The limitation on discounts, if put into rigid operation on the verge of a crisis, would have precipitated a panic, exactly contrary as it was in effect to the method of freely discounting at such times that has received the sanction of the experience and the judgment of wise bankers. The rejection of this plan and its predecessor is one of those cases in which the very weakness of a man like Tyler accomplishes, in spite of him, the good he seeks, though in a way the exact opposite of what he intends.

During the next few years the subject was less discussed, as it was supplanted in public attention by the questions of the tariff and the annexation of Texas. In the third session of the twenty-seventh Congress, however, the matter came up again. The Committee of Ways and Means made a report on the President's proposed "Plan of an Exchequer," condemning the Sub-Treasury, passing by the State bank system as already rejected by the people, and as unsafe on account of the failure of the banks, and praising the old national bank system. The Committee's opinion of the Sub-Treasury is shown in the following remarks: "Its model may be found in the imperial institutions of Darius, the king of Persia, and its principles have descended, with little modification and slight improvement, it is believed, through all governments where banks do not exist, and are now found in perfect operation in the island of Cuba."

In its details the exchequer plan was, according to the

committee, essentially the Sub-Treasury with certain banking functions added, and herein was the main objection to the scheme. When the bill came before Congress a remarkable amendment was submitted by one member.¹ He proposed the issue of one hundred millions of dollars, bearing interest for ten years at two and a half per cent., *based on the public lands as security*, and to be distributed among the States in proportion to their respective "federal numbers." According to this plan, "fiscal agencies" were to be established, whose beneficent operations, combined with the blessings of the land currency, would bring on a millennium of prosperity of which the present advocates of "coining all the land of the country" have never dreamed. The proposed scheme is one of the most curious of the monetary vagaries that have been brought to public attention in our short history as a nation.

During all this time the government officials kept the public money as best they could. That is, the unlegalized system of government agents as depositaries continued, and the operations of the Treasury rested on the law of 1789 and the resolutions of 1816. Many of the public officials deposited in selected banks.

In his message at the opening session of the twenty-ninth Congress, President Polk revived the matter and urged the re-establishment of the Sub-Treasury. Secretary Walker came to the President's aid in his annual report, and brought forward anew the arguments so often presented against the use of banks. Though he advocated their complete and final rejection, he pointed out the uselessness of establishing a constitutional Treasury "if it is to receive or disburse the paper of banks." The proposed measure again underwent earnest public discussion and again met with strenuous opposition. The arguments which were

¹ Horace Everett, of Vermont.

brought forward were pretty much the same that had been used before, but the long discussion enabled them to be presented in a more complete form. It was again urged in favor of the Independent Treasury that the union of the government with the banks was unconstitutional. The constitutional argument, on both sides, is of only historical interest now, but it is perhaps worth while to note its points. The constitutional argument for the Sub-Treasury was based on the words of the Constitution that "no money shall be drawn from the Treasury but in consequence of appropriations made by law." This, it was maintained, meant "a substantive treasury, substantial treasurer, and a real treasurer." Again, the first Congress, in establishing the Treasury Department, declares that "it shall be the duty of the Treasurer to reserve and keep the moneys of the United States." Of course the argument from this provision depends on the logical content of "receive" and "keep." If "keep" is, as the adherents of the proposed system urged, to be understood literally, why not also "receive"? But for the Treasurer personally to handle all the receipts of the government is impossible. Moreover, what is the literal meaning of "keep" in this connection?

The whole constitutional argument against the use of banks by the government was but a phase of the old doctrine of States' Rights and Supremacy which prevented Congress from assuming such control over the banking system of the country as would have made it safe, would have prevented "wild-cat" banking, would have saved the financial good name of the country, and would have made the sub-treasury system unnecessary by making the banks as safe for government use as they are to-day.

The arguments urged in favor of the banks were the safer

keeping and the free and safer transmission of the public moneys; the easier and more inexpensive collection of the government revenues; the greater facility of obtaining loans, and the receipt of interest by the government on its deposits. The first of these arguments, as to the safer keeping and transmission of the government money, is patently weak. As Mr. Niles had years before remarked, a government is not worthy of its name if it cannot protect its own property. And if it cannot protect its own property how could any bank do so when the government is the ultimate source of protection to the bank? The only strength of the argument lies in the fact that if a bank should lose government deposits it would have to replace them—if it could, if it had any means left wherewith to do so. The matter of interest is unimportant and should have no weight by the side of other considerations. A far more weighty objection to the system under discussion was brought forward when it was said that the continued payment of government debts in coin was impracticable. The use of treasury notes, it was said, would become necessary, and they would remain at par only so long as public deposits were on hand. The argument had some truth in it, but it was not true to the extent its advocates thought or maintained. Aside from political exigencies, under a sound system of finance, payments in actual specie are only inconvenient and costly, not impracticable, in some varying proportion to their amount and frequency.

In a review of the subject the editor of the *Bankers' Magazine*¹ asserted: "That scheme [the Sub-Treasury] we consider utterly impracticable and indefensible." Such a law "cannot be in force for six consecutive months, nor will it be, in our opinion, strictly complied with for forty-eight hours."

¹ Vol. i., p. 15 (1845-46).

The subject went the old, weary round of discussion in Congress, supported and attacked with arguments that applied and arguments that did not, with arguments to the point and arguments aside from the point, and emerged at last into light from behind the clouds of personalities, party animosities, and "counsel without knowledge," that more or less darkened the subject during the whole ten years from the time when it had been first proposed.

As before, the hottest fight was made over the provision requiring receivers and disbursers of the public money, including all postmasters, to receive and pay out specie only. On the face of it, this was, of course, the most probably impracticable provision of the bill. Objection was also made to the employment of so large a portion of specie in the payment of duties, on the ground that it would embarrass business; and the expensiveness of the system was held up as a further reason for condemnation.

However, the tide had turned, the ship of state was being guided by the political compeers and descendants of Jackson and his policy, and public opinion was less pronounced against the measure than it had been. Thus it happened that the Sub-Treasury was re-established. The bill was reported by the Committee of Ways and Means, and passed the House, April 2, 1846, by a vote of 123 to 67. It received the sanction of the Senate, on the 1st of August, by a strict party vote of 28 to 24, and went into effect immediately, thus consummating the policy of the "divorce of bank and State" which was begun by Jackson and carried on by Van Buren, and in his time lasted "just long enough to prostrate the party which brought it into being; which expired with the elevation of the opposing party — was revived with the restoration of 'the democracy,' and has since continued, through changes of

administration, undisturbed ; having received the general acquiescence of the popular will, if not the positive approval of the public judgment.”¹

And so the “divorce” of bank and State, which had for a time been “*a mensa et thoro*,” now became “*a vinculo*.” The act found its justification in the nature and condition of the banking system of the time, which made the reliance of the government on the banks for financial safety dangerous and, therefore, undesirable. Under the old national banking system the issue of notes was, indeed, fairly well under government control. But the character of that system was unsuited to the rapidly growing needs of the country, and threatened a social differentiation incompatible with the preservation of the democratic equality necessary to the vitality of republican government.² The State banking system had been well denominated “wild-cat.” Utterly irresponsible, and beyond control in the strength of the doctrine of State supremacy, in its evil and untenable form which was swept away only by the blood of Civil War, these banks were indeed a veritable powder magazine by the explosion of which the credit and good name of the nation, if it trusted them, might at any time be shattered.

It is in this danger that we must look for the justification of the removal of the government finances to a sounder and safer basis. Whatever may be the influence of its operation now, the establishment of the Sub-Treasury was, under the circumstances, justifiable and necessary. Whether its continuance is so is another question, the answer to which it remains to discover from the history of its existence.

¹ Young's “American Statesman,” p. 739.

² Cf. Schurz's “Henry Clay” (American Statesmen Series), vol. ii., pp. 48-50.

CHAPTER III.

DEVELOPMENT OF THE INDEPENDENT
TREASURY.

THUS at last were fully realized the wishes of those who had worked to give the United States Treasury a substantial existence, in distinction from the merely legal life which it had hitherto enjoyed. The first section of the new law¹ defined the Treasury thus: "The rooms prepared and provided in the new treasury building, at the seat of government, for the use of the Treasurer of the United States, his assistants and clerks, and occupied by them, and also the fire-proof vaults and safes erected in said rooms for the keeping of the public moneys in the possession and under the immediate control of said Treasurer, and such other apartments as are provided for in this act as places of deposit of the public money, are hereby constituted, and declared to be, the Treasury of the United States." The other places of deposit provided for were Philadelphia, New Orleans, New York, Boston, Charleston, and St. Louis. The appointment of assistant treasurers was provided for in the last four places, while in the other two the treasurers of the mints were to perform the duties of assistant treasurers.

The sixth section contains the provisions which essentially modified the nature of the Treasury. It provides "That, the Treasurer of the United States, the treasurer

¹ The act is given in full in Appendix, p. ii.

of the mint of the United States, the treasurers, and those acting as such, of the various branch mints, all collectors of the customs, all surveyors of the customs acting also as collectors, all assistant treasurers, all receivers of public moneys at the several land offices, all postmasters, and all public officers of whatsoever character be, and they are hereby, required to keep safely, without loaning, using, depositing in banks, or exchanging for other funds than as allowed by this act, all the public money collected by them, or otherwise at any time placed in their possession and custody, till the same is ordered, by the proper department or officer of the government, to be transferred or paid out; and when such orders for transfer or payment are received, faithfully and promptly to make the same as directed, and to do and perform all other duties as fiscal agents of the government, which may be imposed by this or any other acts of Congress, or by any regulation of the Treasury Department made in conformity to law; and also to do and perform all acts and duties required by law, or by direction of any of the executive departments of the government, as agents for paying pensions, or for making any other disbursements which either of the heads of those departments may be required by law to make, and which are of a character to be made by the depositories hereby constituted, consistently with the official duties imposed on them."

Sections seven and eight provide for the giving of bonds; nine provides for deposits by collectors; ten, for transfers by the Secretary of the Treasury; eleven and twelve, for examinations of the condition of the Sub-Treasuries and depositories; thirteen provides means, such as fire-proof vaults, etc., for the safe keeping of the public funds; fourteen, for the transfer of balances from

one depository to another, by the Secretary of the Treasury; fifteen directs the method of deposit by marshals, district attorneys, etc.; sixteen defines and provides penalties for embezzlement, and for violations of the act; and seventeen for temporary quarters. Sections eighteen and nineteen contain the provisions around which the conflict of debate had waged most fiercely. In them occurs the famous specie clause, which requires the payment of public dues and disbursements in gold or silver coin or treasury notes only. The specie clause was not to go into effect until the 1st of January, 1847. Section twenty supplements the two previous sections by requiring that all exchanges of funds must be on a gold and silver basis. The mode of payment of drafts is prescribed by the twenty-first section, and that of salaries by the twenty-second. In the twenty-third, and final, section, provision is made for immediate incidental expenses.

From this brief summary it is clear that the act completely accomplished the separation of bank and State, at which it was aimed. It made the government distinctively its own banker, essentially and actually, even to the furnishing of the paraphernalia of office-room. Taken in conjunction with the law sanctioning the emission of treasury notes, the sub-treasury act established a bank of issue.

The providing of vaults was simply a result of that play on words which, after all, was part of the basis of the constitutional argument. There was no sound reason why, even though the government financial operations were separated from the banks, the public money might not have been kept in bank vaults, perhaps as special deposits.

The places selected for the establishment of sub-

treasuries were those in which the government operations were most considerable, and which were centres for the collection of revenue from the country round about, and for the payment of the public creditors. The establishment of a Sub-Treasury or depository in a place appears, also, to have been regarded as peculiarly advantageous from a business point of view, because it was thought to make trade brisker through the concentration of larger amounts of money. Of course this supposition had no foundation in fact, unless in the case of a place, if there were any such, remote from a bank and accustomed to make considerable payments to a hitherto distant treasury agency. But the advantage in any case was merely one of convenience, and was not due to any possible fillip to the briskness of trade. That such a combination of circumstances existed is, however, too improbable to dwell on. As a matter of fact, the ground covered by the new Sub-Treasuries and depositories was substantially that formerly occupied by the banks through which the government had done its business. The selection of the localities was made, then, not on political grounds, but solely on the supposed conditions of the public service. At a later time, the feeling that the presence of a Sub-Treasury is advantageous to business led to an attempt to secure the establishment of one in Louisville. But the request was, as we shall see,¹ refused by Congress.

The requirement that all public officers should safely keep the public money committed to their charge without depositing it in banks, was as absurd as it was unjust to the officers and unsafe for the money. For no proper places for safe-keeping were provided. The

¹ See p. 76.

banks had vaults far safer than any place of deposit that could be provided by most of the officers of the government, in the lack of proper appropriations. The new provision, then, made the public money less, rather than more, safe, so far as fire and theft were concerned. Moreover, it was unjust to throw so great a responsibility on the holders of the public money, without furnishing them with suitable accommodations for keeping it. To be sure, section thirteen did provide for fire-proof vaults, and section seventeen for temporary quarters, but not in sufficient number; and, besides, they could not be secured for some time to come. The specie clause was a return to the provision passed by the first Congress, that the Treasury should receive only coin in payment of public dues. Of this clause Edward Everett said that "if the attempt could be forced through, it would be like an attempt on the part of the government to make use of the ancient modes of travel and conveyance, while every citizen in his private affairs enjoyed the benefits of steam navigation and railways."¹ In a certain sense, Everett was right; but the remark seems to indicate that he misconceived the whole drift of the sub-treasury act, and especially of the specie clause. As Secretary Walker had pointed out, the act without the specie clause would have been useless, or worse. If the government were to be no longer connected with banks, especially in the way of having no control over their issues, it was right that it should not use their notes. The only other way whereby it could provide itself with the "steam navigation and railways" of paper money, or the aerial "wagon-way," to use Adam Smith's better figure, was to issue notes of its own. Every lover of sound

¹ See Bankers' Magazine, August, 1885.

finance must always fear that operation, which, under the circumstances existing at that time, would have caused untold trouble if it had been largely resorted to. The only alternative was the use of specie, and to that, in the main, the government wisely committed itself. The clause was not, indeed could not be, observed to the very letter. Even as late as 1855, we are told, it was little, if at all, observed by postmasters.¹ Yet the clause was productive of great good, notwithstanding the imperfect manner in which the law was executed. "All receipts from lands, customs, and other public dues, were paid in gold and silver and treasury notes; and these were employed by the Treasurer in making payments. In this way a stream of gold and silver was set in motion, limited indeed, and running chiefly from the public depositories to the banks, and then returning. But it swelled to larger dimensions."² In short, the specie clause, although it was impeded and limited in its operation, was wholly productive of good, and the departure from it under financial stress in later times was a misfortune.

So far as the banks were concerned the new system meant the loss of the government deposits from their vaults, with the consequence of lessened discounts, and the withdrawal of the support of government credit from their notes. The banks might suffer from the first incident, but had no right to complain of it; and as for the second, it was no fault of the government's if bank notes could not be kept afloat at par without government support. It is the duty of a bank to see that its notes are convertible, at par, without the aid of the public credit.

¹ Young's "American Statesman," p. 874.

² Bolles's "Financial History of the United States," 1789-1860, p. 356.

The work which the new system had to accomplish seemed simple enough, consisting as it did merely of the receipt and payment of the public money. It seemed that the organization of such a system should not be any more difficult than that of such a system of branches as was developed under the second United States Bank. Having declared its purpose to pay specie, however, the government was bound to do so at every agency however remote from a great business centre. To refuse to do so, or even to hesitate or to delay, was to discredit itself.

The new system began its career under many difficulties. No appropriation was made for the salaries of assistant treasurers, or for the additional salaries of treasurers of the mint who were to assume new duties under the law, or for the payment of any special examining agents. Neither were any appropriations made for the expense of transfers, or "to enable disbursing agents to pay the public creditors at all times and places with punctuality and despatch." Moreover, the provision for incidental expenses was inadequate; no adequate security was provided by the law for public money in the hands of disbursing agents, and the powers of the department as to the method of making payments abroad, were not sufficiently defined. There were, in addition, certain external difficulties to be overcome. Chief among these were the opposition of the banks and the distrust and friction incident on an untried system.

On the 25th of August, 1846, Secretary Walker issued a circular to collectors, sub-treasurers, and other officials, directing them to make all government drafts payable to order, not bearer. The drafts were to be transferable only by special indorsement, and payable only at

designated places. If a draft were payable at a place not more than fifty miles from Washington, it must be presented for payment within twenty days from the date of the draft; if at a point distant between fifty and one hundred miles, it must be presented within forty days; one hundred to two hundred miles, within sixty days; two hundred to four hundred miles, eighty days; and over four hundred miles, ninety days. All drafts not so presented had to be sent to the Treasurer to be paid as he should direct. No exchange of funds between disbursing officers or other government agents was allowed, except for gold or silver. Under the specie clause, the Secretary directed that no payments could be made in treasury drafts, even though a creditor should prefer that mode of payment. The collectors of New York and Boston were required to deposit their receipts daily, while all other officers mentioned in section nine of the act were required to do so weekly. During the next two years the country had the Mexican war on its hands, and in 1847 the government was compelled to issue over twenty millions of treasury notes, and to contract a twenty-eight million dollar loan.¹ But the notes were issued at par, and the bonds commanded a premium. Throughout the war specie payments were kept up, the treasury notes at no time falling more than one-half of one per cent. below par in New York. The Secretary in his report gives the Sub-Treasury much of the credit for the success of the financial operations of the war. "The Constitutional Treasury," he says, "has been tried during a period of war, when it was necessary to negotiate very large loans, when our expenditures were being increased and when transfers unprecedented in amount were

¹ Including the conversion of treasury notes.

required to distant points for disbursement. During the last eleven months the government has received, transferred, and disbursed more specie than during the whole aggregate period of fifty-seven years preceding since the adoption of the Constitution." Over twenty-four millions of specie were imported during the year, a net gain of imports over exports of more than twenty-two millions. This specie, the Secretary maintained, would have been made the basis of a paper inflation which would have produced a ruinous revulsion in business. Gouge, writing at the time, took the same view. The Secretary wrote: "From this revulsion we have been saved by the constitutional Treasury, by which the specie imported, instead of being converted into bank issues, has been made to circulate directly, to a great extent, as a currency among the people. . . . The government is now disconnected from banks, and yet its stock and notes are at par, although we have been constrained to contract heavy loans, and to keep larger armies in the field than at any former period. But during the last war, when the government was connected with banks, its six per cent. stock and treasury notes were depreciated twenty-five per cent., payable in bank paper twenty per cent. below par, thus amounting to a loss of forty-five cents in every dollar upon the operation of the government." Even although Secretary Walker's view of the beneficial influence of the Independent Treasury be regarded as too favorable, we may readily admit that the credit of the government was upheld largely by the specie clause of the sub-treasury act, which virtually bound it to redeem its notes and bonds in coin, and that the operation of the act was to keep up a specie circulation which gave a sound basis to the whole currency.

How far these results would have been achieved,—and how far, therefore, they were due to the Sub-Treasury,—if, while the government was under the stress of the war, trade had not assumed a tremendous bound, is, it may be said, at least problematical. The large grain exports of 1847, amounting to over \$37,000,000, brought in, as already noted, a large amount of specie; the abolition of the corn laws in England was attaining its full effect, and the revolutionary disturbances in Europe in 1848 also tended to help American commerce. The “favorable balance of trade” was paid largely in imports of specie, partly at least in answer to the government demand for it, thus enabling that demand to be satisfied without paying too great a price. But this specie remained in the country, thus showing that it was satisfying a lasting need. This permanence of demand was doubtless largely caused by the demand of the government. If the conditions of business had not been favorable to securing specie, however, it is not unlikely that the stress which the demand for specie would have produced would have strained the financial virtue of Congress to the point of breaking or annulling the act. Consequently the Sub-Treasury cannot be credited with the whole of the good influence of increasing the metallic circulation. The increase was largely due to favorable commercial and financial conditions. Still, the independent action of the government had a beneficial influence on the currency by restraining bank issues. If the government money had been deposited in the banks, as the banks were then conducted, they would have made it the basis of further issues of notes, forcing up prices and leading to an export of specie. But it is not surprising that the contrast between government finances and credit, in the wars of

1812 and of 1846, should have reconciled the people to the new system. For that a *post hoc* readily becomes a *propter hoc* in the popular mind, especially in the financial operations of a government, needs no proof to one who knows anything of the popular arguments on the subject, for example, of a protective tariff.

One small advantage of the system, that had not been foreseen, was reported by Secretary Walker. This was in the fact that whereas under the *régime* of the banks it had been necessary to keep four millions in the Treasury to supply the mints with bullion for coinage, under the Sub-Treasury, it was found that three millions would do.

The experience of the first two years developed some defects of detail in the system. Secretary Walker, in his report for 1848, speaks of losses that arose from delay in shipping foreign coin received in New York for customs dues to Philadelphia for re-coinage, and therefore he advocated the establishment of a branch mint at New York. He still insisted, however, on the advantages of the independence of the government in money matters, asserting that "a system which has operated so beneficially, both in war and in peace, must, in the main, be wise and salutary."

A side light is thrown on the working of the Sub-Treasury system in a speech of Webster's, delivered in Faneuil Hall, Boston, Oct. 24, 1848. He asserted that on the 25th of the previous August the New York banks had \$5,800,000 in specie, and the New York Sub-Treasury had \$1,400,000. On Sept. 29, the banks had but \$4,600,000, and the Sub-Treasury had \$2,400,000, thus having absorbed one million of dollars in a single month, with the evil results of a scarcity of money and a

curtailment of discounts. It must be remembered, however, that Webster was making a political speech. It is not at all probable that the specie lost by the banks was all gained by the Sub-Treasury. Money was moving westward at that season of the year.

In the following year, 1849, other inconveniences became manifest. According to the provisions of the law, disbursing officers to whom drafts were issued were required to receive the whole amount, no matter how large, in one sum, even although they had to use it in making many separate small payments. Hence the custody of the money and the burden of transferring it to the places where it was due were forced on these officers, and the money was thus exposed to risk of loss or of theft. Moreover, the actual carriage of coin was expensive and unsafe; there was great inconvenience from the accumulation of coin where it was not needed, and the number of clerks employed to do the work of the various offices was too small. On account of these disadvantages, as he affirmed, the new Secretary of the Treasury, Mr. Meredith, questioned the expediency of continuing the system. He proposed that any person having a draft on a Sub-Treasury might deposit it and draw on the deposit as he needed the money. This was a proposal to make the Treasury a bank of deposit for the safe keeping of the money of the government creditors. But nothing was done about the recommendation, even with reference to disbursing agents, until 1857, after the matter had been repeatedly urged on the attention of Congress. Then, however, it was provided that disbursing officers might draw checks on the amounts to their credit in favor of the persons to whom money was due, unless the amount was less than twenty dollars.

As to the transfer of the public funds, obviously one way was to transfer specie. But this could be done only at great expense and risk and loss of time. A second method of transfer was to give drafts to bankers and brokers, and permit them to use the money long enough to compensate them for the expense of transporting specie.

When Secretary Guthrie assumed office in 1853, he found that "\$475,000 was in the hands of agents under agreements to transfer the same for the department to different places of deposit, together with the sum of \$2,226,982.27 unaccounted for and designed to pay interest."¹ The Secretary abolished this method of making transfers and effected them "by the sale of treasury drafts at the points where the money was needed for disbursements, as authorized by law, or by an actual transfer by an officer of the department."² Mr. Guthrie interpreted the Independent Treasury law strictly, and insisted that the public money should always be in the Treasury or in some sub-treasury or legal depository. He required the assistant treasurers and officers of depositories to receive the deposits of disbursing agents, so as to render the use of banks by these agents unnecessary. It was well that the Secretary held this opinion of the proper method of making transfers, for the use of bankers and brokers as agents was an exceedingly vicious makeshift. It opened the way widely to favoritism towards particular banks, and was a source of great risk. Some of the drafts were not accounted for for long periods. Moreover, it was a virtual abandonment of the principle of the complete separation from banks, which was the underlying principle of the Independent Treasury. That this mode of transferring funds was much abused is shown by the increase in the amount

¹ "Report on the Finances," 1852-53, p. 13.

² *Ibid.*

of transfers when the method was used. When the transfers were made in cash they amounted, in New Orleans, to about \$38,000 a month; under the system of employing bankers and brokers the transfers swelled to \$227,000. In Washington they rose from \$135,000 a month to \$225,000. This evil was corrected, however, in 1854, and the transfers were thereafter made in money.

About this time the California gold mines began to have an influence on business by making gold a commodity for export. The excess of gold exports over imports rose from a little less than three millions of dollars in 1850 to twenty-four millions in 1851, thirty-seven millions in 1852, and became thirty-four, fifty-two, forty-one, and fifty-six millions respectively, in the four following years. The large gold production must have had a tendency to make prices more irregular than they would otherwise have been. Their trend was upwards, and on a scale approximately adapted to the amount of gold available in the market. The action of the Sub-Treasury was a disturbing factor, irregular in its influence. In 1853 the receipts of the government exceeded its expenditures, so that there was a considerable accumulation of money in the Treasury. To prevent any stringency that might be caused thereby the Secretary issued a circular, on the 30th of July, offering to buy five million dollars' worth of six per cent bonds. He secured them by paying a premium of twenty-one per cent. During the year 1854, according to the report of Secretary Guthrie, the Treasury kept up the demand for coin by receiving and paying more than seventy-five million dollars of it. Thus the circulation of specie was maintained despite the tendency exerted by the small notes of the banks to drive it out; for so long as the government insisted on

using specie, it could not be wholly driven from use.¹ The Treasurer stated in his report that no difficulty had been found in the working of the law, and that the money in the various sub-treasuries was "as safe and secure as that in the Treasury." Evidently the machinery was now in good running order. But allowance must be made for official prejudice in favor of the system.

In May, 1854, Mr. William M. Gouge was appointed special agent to examine the condition of the various sub-treasuries and their operations. As has been already mentioned, the system was, at the time of its establishment, under great disadvantages from the lack of suitable buildings. In only a few of the places designated as the seats of depositories were such to be found. Gouge reported that the government had not "in the whole valley of the Ohio a building or a vault in which to deposit a dollar or a paper."² Boston was the only place provided with suitable buildings for the Sub-Treasury. Most of the buildings actually used for the purpose were unsuitable, being only such as each agent could secure under his special circumstances, so that, as hitherto, the provisions for the safe keeping of the public money against fire and burglars were totally inadequate.

¹ This fact does not constitute a failure of Gresham's law, but rather is in keeping with it; for the operation of a special force — the uncompromising demand of the government for coin — was necessary to prevent the paper from driving out the gold. Legislation, or custom, or public opinion, may exert such an influence as to maintain an existing monetary standard. Gresham's law, like other economic laws, is a law of *tendencies*; and a statement of it, in order to be correct, needs to be conditional. For an interesting account of a similar apparent failure of the law see the article by Bernard Moses in the *Quarterly Journal of Economics*, vol. vii. No. 1, on "Legal Tender Notes in California." In this case the gold held its place against paper backed by the fiat of government.

² Finance Report, 1854, p. 256.

But the zeal and honesty of the officials made up for these defects, showing, as the Secretary pointed out, that the objection to this system, founded on probable loss from the personal dishonesty of the assistant treasurers, was unfounded. Gouge gives a description of one depository visited by him, which is worth transcribing, if only to show the niggardliness, or at least the carelessness, of Congress in providing for the proper carrying out of its legislation, and also the notable improvement that has since taken place. The depository referred to was that at Jeffersonville, Ind. Gouge says that it reminded him more strongly of what Robinson Crusoe's fortifications may be supposed to have been, than anything else he had ever seen. "The chief tavern of the town was the building believed to afford the best security, and an apartment adjoining the bar-room was made a depository of the United States. Immediate access from the bar-room to the depository was shut off by closing the door of communication, and, as further security, the partition wall was lined with boards; but, as the glass lights in the communicating door were left uncovered, in order that the keeper of the public treasure might, when in the bar-room, see into his own apartment, a determined burglar could, in a few minutes, have forced his way in. The entrance into the depository was through a back passage under a stairway. Every person who attempted to enter had to stoop till he was almost double; and then he found his further progress obstructed by a grated door, fastened by an iron chain in such a way that it could not be opened except by main force, or with the consent of the sub-treasurer. When in the depository the citizen who had business there found it divided into two apartments by a temporary partition. One of

these was lighted by a single window, defended by iron grates of no very great strength. In this division of the room the officer kept the chief part of his silver in boxes; screening the boxes themselves as well as he could from public view by covering them with wooden casing somewhat resembling in form a giant coffin. In the other division of the room, being that to which there was entrance under the stairway, there was an iron safe, in which the depositary kept his gold and so much silver as he could store therein. Around this apartment ran a low gallery, constructed by the depositary expressly that, in case of attack, he might, if in danger of being overpowered below, retire above, and shower down upon his assailants stone bottles and other missiles of this kind, of which he had provided an abundant store. He slept in this room, and guns, pistols, and pikes completed his assortment of weapons offensive and defensive.”¹

Gouge recommended, in his report, that the actual transfers of specie be reduced to a minimum and supplemented by the use of drafts on some specified sub-treasurer. These drafts, he recommended, should be issued at any sub-treasury, on deposit of the amount in specie at the issuing office. This mode of transfer was essentially adopted afterwards. The object of making these proposed drafts payable at a particular depository was to prevent their passing from hand to hand as currency. For with the restriction as to the place of redemption, if they circulated at all it would be in the neighborhood of the sub-treasury at which they were payable.

Gouge incorporated in his report a *résumé* of the advantages of the Independent Treasury as he saw them. He insisted that it gave greater stability to the banks,

¹ See Finance Report, 1854.

not only by its restrictive influence on note issues, but also by keeping specie in circulation. For the banks are sustained, as he rightly argued, not only by the specie which they have in their vaults, but also by all in the country to which they may have immediate access by the sale of securities. Gouge further maintained that the amount of specie in the country had been more than doubled by the action of the Constitutional Treasury system. Summarizing his opinions, he declared that if the Constitutional Treasury system were faithfully carried out it would increase the amount of gold and silver in circulation, weaken the force of bank expansions and contractions, prevent the losses that had formerly arisen from the use by public officers of public funds intrusted to their care, give the government at all times complete control of its own funds, prevent the derangement of business caused by government's effecting large loans through bank credits, and tend to prevent the general suspension of specie payments, or facilitate their restoration if suspension should occur. "The less government has to do with banks, and the less banks have to do with government, the better for both." That doctrine was eminently sound as banks were then constituted.

It may fairly be admitted that experience with the Independent Treasury, up to the time when Gouge wrote, justified him in the first four opinions mentioned in the summary above, gave a superficial plausibility to the fifth, and showed that there was a considerable amount of truth in the last. For notwithstanding its many imperfections the system seems to have been at this time in good working order, and was apparently accomplishing all that its advocates had claimed for it. But since its establishment the financial operations of the government

and the conditions of business had been favorable to its success. At no time had there been in the Treasury any large surplus, and there had been no crisis to cause financial distress. To be sure the Mexican war caused "a squeeze" in the market, but there was no real disturbance. Business had been, on the whole, good, and commerce had increased. Consequently there was little to cause friction in the working of the new fiscal machinery.

These conditions made it possible for the Secretary of the Treasury to write in 1855 that the Independent Treasury was "still eminently successful" in all its operations. The transfers for disbursement for the fiscal year were \$39,407,674, made at a cost of \$19,762, and the premiums on the sale of treasury drafts amounted to \$30,431. The government was now engaged in the business of banking and exchange. The receipts and expenditures of the government for the year were all paid in gold and silver, and were, according to the Secretary, without any perceptible effect on currency or business. This last remark was an implied admission of the possibility of an unfavorable influence of the Sub-Treasury on business.

During the year 1854-55 the vaults at Washington had been made safe, but those at other places remained in pretty much the same condition. Gouge again made an examination of them, but developed nothing new. The only loss from robbery, he says, was in the previous year at Pittsburg, and amounted to \$10,000.

The system of transfer drafts recommended by Gouge the year before had been adopted and had worked well. He reported that further experience had strengthened his opinion of the advantages of the system.

The existence of a surplus was, however, evidently a

source of anxiety to the well-wishers of the Independent Treasury; for in his next report, December, 1856, the Secretary of the Treasury takes occasion to explain its action on the volume of money, as he regards it, and attempts to show that the influence was beneficent. He declared that "the Independent Treasury, when over-trading takes place, gradually fills its vaults, withdraws the deposits, and, pressing the banks, the merchants, and the dealers, exercises that temperate and timely control which serves to secure the fortunes of individuals and preserve the general prosperity." This is virtually claiming that, on a rising market, a reduction of the currency moderates the rise of prices, preventing them from reaching so high a point as they otherwise would. This claim will be considered by and by,¹ but meantime it is sufficient to note that the system was even already on the defensive. Secretary Guthrie went on to say that the Sub-Treasury may "exercise a fatal control over the currency, the banks, and the trade of the country, and will do so whenever the revenue shall greatly exceed the expenditure." This was clear to the Secretary from his own experience that year. There was a surplus, and prices were rising. Therefore the Treasury Department sought to give relief to the money market by that method of forced debt payment with which we have since become so familiar. "There has been expended, since the 4th of March, 1853, more than \$45,525,000 in the redemption of the public debt. This debt has been presented, from time to time, as the money accumulated in the National Treasury and caused stringency in the money market. If there had been no public debt, and no means of disbursing this large sum and again giving it to the

¹ Chap. vii., pp. 167, 211.

channels of commerce, the accumulated sum would have acted fatally on the banks and on trade. The only remedy would have been a reduction of the revenue, there being no demand and no reason for increased expenditure." ¹

The Secretary asked Congress to increase the number of depositories, so as to afford facilities for deposit to all receiving and disbursing officers. According to his report, the law had been carried out as far as practicable, but some disbursing officers had ignored that part of it which prohibited deposits in banks.

The amount of transfers during the year had amounted to \$38,088,113.92, at a cost of \$12,945.87; and the premiums on the sale of treasury drafts had been \$54,924.16; leaving \$41,978.29 over the expenses of transfer. The Secretary expressed the opinion that hereafter the transfers of public money would be made without charge and without risk.

In 1857, by an act of March 3, the law was amended so as to require disbursing officers to deposit in some sub-treasury. Up to this time many of them had continued to use the banks for the safe keeping of the public money in their charge, usually placing it in them as a special deposit. After the amendment, the Secretary directed the treasurers of the mints, of the depositories, and of the sub-treasuries, to receive deposits of disbursing officers, but not to honor drafts on them unless made in favor of some person known to the treasurer. If for sums of \$20 or less the drafts might be drawn in favor of the disbursing officer himself, or of bearer. Disbursing officers might also draw for money to pay the salaries of employees, but they were required to furnish lists of such

¹ Finance Report, 1856, p. 32.

employees. Public depositaries were not required to pay drafts made out to A.B. or *order*; but they might pay to A.B. or *bearer*. There were many obvious difficulties in the way of strictly enforcing the amendment, and it is probable that it was not widely observed to the letter. The treasury report of 1858 pointed out, what might have been easily foreseen, that there were some conditions under which compliance with the law was utterly impracticable. Sailors in a foreign port, or on a long cruise, could not be paid according to the law, and pursers must carry money with them. Indian agents could not pay so, neither could disbursing officers remote from a depository; and disbursing agents of the army would have some difficulty. Much additional labor and expense were entailed by the act requiring the assistant treasurers and depositaries to hold the money of disbursing officers and pay it out in detail. According to Secretary Cobb, the additional labor amounted to "one hundred per cent." This labor increased as the government revenues grew, and assumed enormous proportions on the breaking out of the civil war. According to the report of 1861, the amounts so deposited rose from eight millions to one hundred and ninety millions of dollars.

The year 1857 witnessed a panic in the money market. As the pinch grew more severe, the Secretary of the Treasury sent to the various depositories silver change of all denominations, and small gold from the mint, with instructions to pay out the coin to applicants in exchange for large coin. This furnishing of "change" was a real convenience, and it could not but have had a good educational effect by keeping specie in daily use among the people.

Speaking of the amendment requiring disbursing offi-

cers to deposit in the government depositories, Secretary Cobb said: "The present condition of money affairs is a significant indication of the consequences that must have been anticipated if this regulation had not been adopted, and the public money advanced to disbursing officers had continued to be deposited in banks and with bankers, and had been used by them as a basis for increasing their business and extending their circulation. Not only would the contraction now going on, and the consequent embarrassment and distress of the commercial community, have been much greater than it is, but the public moneys themselves would have been placed in imminent danger." In fact, the situation was such that there would probably have been a repetition of the events of 1837, and the "divorce of bank and state" was justified by the danger which it had evidently enabled the government to avoid. In 1837 the failure of the banks caused the government great embarrassment. In 1857 the banks had again failed; but the government, having its money in its own hands, was able to pay its debts, and met every liability without trouble. Said the Secretary of the Treasury: "It has resorted to no expedient to meet the claims of its creditors, but with promptness pays each one upon presentation." It is not to be wondered at that such a showing should wed the people to the system. Its practical success in preserving the credit of the government, or at least in making its financial operations easier, was an object lesson that appealed to the popular mind.

Secretary Cobb claimed that the specie disbursements of the government afforded relief to the money market. This, doubtless, was true. But it could hardly be used as an argument to show the benefits of the Independent Treasury, unless it were also shown that its previous

absorption of this specie did not bring on or intensify the monetary pressure. Certainly it could not now be said that the system had prevented over-issue by the banks, in face of the prostration of credit that had overtaken them. Thus one of the claims of which most was made in favor of the "Constitutional Treasury," that it would check excessive issues of bank-notes, was shown by the occurrences of 1857 to be less strong than had been supposed. Even Mr. Howell Cobb, the Secretary of the Treasury, ardent supporter as he was of the policy, was compelled to admit that the anticipations of its friends that it would so operate were true only "to a limited extent."

Still he was so sure of the beneficial influence in this direction of the independence of government fiscal operations that he recommended the State governments to adopt the system. Ohio seems to have been the only State that seriously contemplated doing so, but the act to separate the State finances from the banks, after passing the House, was voted down in the State Senate.

The collection and disbursement of the revenue went on during the panic, according to the Secretary, without "loss or embarrassment," and the sub-treasury system was "eminently successful." There was no loss from faithless officers, the expense of its operation was small, and it had, in the opinion of the government officers, no bad effect on business. President Buchanan took the same view as his Secretary of the beneficial operation of the Sub-Treasury. In his annual message, Dec. 7, 1857, he said, "Thanks to the Independent Treasury, the government has not suspended [specie] payments, as it was compelled to do by the failure of the banks in 1837. It will continue to discharge its liabilities to the

people in gold and silver. Its disbursements in coin pass into circulation and materially assist in restoring a sound currency."

During the financial year 1858, bond purchases were continued to the amount of nearly four millions of dollars, and contributed somewhat to the mitigation of the disasters of the revulsion. In view, however, of the fact that the excess of exports of specie over imports for the year amounted to over thirty-three million dollars, it is clear that the influence of the amount "set free" from the Treasury, on the whole volume of the currency, must have been very insignificant.

After the country recovered from the effects of the panic its progress was very rapid. From 1858 to 1861 the country was prosperous, and the banks held a strong specie reserve. The expenditure of the government for three years exceeded the receipts by about ninety millions of dollars, and the deficit was met by loans. Under an act of Dec. 23, 1857, over fifty-two million dollars of treasury notes were issued. They were redeemable in one year, bore interest ranging from three to six per cent, and were sold at par. In June, 1858, bonds to the amount of twenty million dollars, redeemable in fifteen years, were sold at a premium. In June, 1860, came seven millions more, which also sold at a premium, though a smaller one; and in December of the same year an issue of ten million dollars of treasury notes was authorized. They sold at par. The needs of the government under the stress of war necessitated the placing of several more loans, both in bonds and treasury notes, all of which, with one exception, were placed at, or above, par. This is true even of the demand notes of 1861, although it was only with some difficulty that the employees of the

government were persuaded to receive them. As yet the government was true to its resolution to maintain itself on the specie basis that formed the keystone of the independent treasury system. However, under the act of July 17, 1861, Secretary Chase applied to the banks for a loan of fifty million dollars in seven-thirty bonds, payable in three years. The loans of the Mexican war had been placed independently of the banks. The Treasury had been its own broker. This solicitation of aid from the banks was, therefore, the first step away from the principle on which the independent treasury system had been built. It was a little step. The banks were not yet to handle the government receipts or to have the custody of its money. But it was a look backward to the policy abandoned in 1846. The act, however, was a necessity. The government needed gold, and the only large accumulated stock of that metal was in the banks. Their specie reserve amounted to about eighty-seven million dollars, and they were strengthening their position. In August the Secretary had a conference in New York with representative bankers of New York, Philadelphia, and Boston, with reference to the requested loan. The terms were agreed on, as mentioned; the government was provided with money, which, being expended in military operations, found its way back to the banks and enabled them to make a further advance of a similar amount soon afterwards. Between August 19 and Nov. 19, 1861, Secretary Chase borrowed over a hundred and forty millions of dollars from the banks. The specie held by them in August, the time of the first loan, was forty-seven millions of dollars; in December, after most of the last loan had been paid, it had decreased only by about five millions. The recuperative power of the banks was thus clearly shown.

But, while borrowing the gold of the banks, Mr. Chase was also driving their notes from circulation by the issue of treasury notes, and the bank-notes coming in for redemption created a new drain on the gold reserves of the banks. The banks could furnish the Secretary with gold, or they could sustain the credit of their notes. But they could hardly be expected to do both. Accordingly they urged the Secretary to cease the issue of the treasury notes and to use bank-notes. The government refused to do so, however, and in December, 1861, the banks suspended specie payments. Had the Secretary withdrawn the treasury notes and accepted the bank issues, it would have been a departure from the Independent Treasury act, so far as it prohibited connection with banks. But, in all probability, the banks would not then have been compelled to suspend, and the government could have kept inviolate the spirit of the specie clause of that same act. In avoiding Scylla Mr. Chase fell into Charybdis. That the banks would have avoided suspension if the government had accepted their notes is, of course, by no means certain. It is possible, perhaps probable, that the "briskness of business" caused by the war would soon have induced the banks to over-issue, and specie payments would have been suspended just the same. Certainly the mere acceptance of the notes by the government, while it would have greatly strengthened the credit of the banks, could not have prevented their notes from depreciating, unless at the same time the government could have controlled and limited their issue.

It is not, indeed, true that the main responsibility for the suspension of specie payments by the banks can fairly be laid on the Independent Treasury, for the banks could have refused to lend to the government, and so could have

kept their gold for the redemption of their notes ; but if they had done so, treasury notes would early have been issued, in even greater numbers than they actually were, and they would inevitably have increased beyond the power of the government to keep them at par. The Independent Treasury law permitted the issue of treasury notes, and so far contributed towards the tendency to suspension. But the real force making for suspension was the policy of Congress and the Treasury Department to try to meet the expenses of the war by loans with as slight an increase of taxation as possible. The treasury notes contemplated by the Independent Treasury law were convertible, and to be issued for a short time. The notes of the war period evidently violated the spirit of the law, though keeping within its letter. There is reason for thinking, however, that if the government had used bank-notes instead of treasury notes, suspension could have been postponed and perhaps avoided.

The suspension of specie payments by the banks was necessarily followed, and that within a week, by a similar action on the part of the government. On Jan. 6, 1862, "it dishonored its own promises — it ceased paying coin," and gold immediately went to a premium of two per cent. Of the two evils, acceptance of bank-notes in payment of government dues and the suspension of specie payments, the first, of course, was infinitely the less. The mistake of Secretary Chase was in thinking he could avoid both. It is easy to criticise after an event, with all the data at hand. It is far more difficult to act under the stress of actual circumstances. Yet it does seem that, even at the time, the possibility of getting on without legal-tender notes might have been seen, and the country kept on a specie basis.

Thus the most important provision of the Independent Treasury act of 1846 was made of no effect. The government had been solicitous about keeping the public money safe from banks and bankers that would not, or could not, redeem their notes; but it turned itself to the manufacture, by the hundred million, of "greenbacks," which, by a legal-tender fiat, were forced on creditors in payment of the hard-earned dollars they had loaned. From this time on, then, certainly until the resumption of specie payments, the sub-treasury law was a dead letter. The act that cancelled it deprived, in many instances, one of the parties to a contract of the protection of the laws of his country; it was passed with much hesitation and misgiving by the Congress responsible for it, and on the recommendation of a Secretary of the Treasury who afterwards, as Chief Justice of the Supreme Court of his country, pronounced it unconstitutional.

Still, the abandonment of the system of "divorce of bank and state" was not yet complete. The Sub-Treasury remained in form. The legal-tender notes were not receivable for customs dues because the government had to have some specie, and there was now no way of getting it as a current receipt except by making these duties payable in gold.

We read nothing more in the treasury reports about the sub-treasuries, beyond the mere official reports of their transactions, until 1863. During that financial year, we are told, the receipts and disbursements of the assistant treasurers at San Francisco and St. Louis, and of the designated depositories, especially at Baltimore, Cincinnati, and Louisville, were "large beyond precedent." Of course, this simply meant that government financial matters had, in the conduct of the war, suddenly leaped

to gigantic proportions. The duties of the officers, the Secretary assures us, were well performed. Meantime the plan of paying government dues by means of transfer checks on the assistant treasurers at New York, Philadelphia, Boston, and San Francisco had been adopted, and Treasurer Spinner informs us in 1863 that the plan had proved of signal "benefit to the public creditors, and an essential aid to the business of the department." The number of these checks had increased from 1484 in the financial year of 1861 to 30,526 in 1863. In the latter year \$159,864,954 were thus transferred. By the use of these the necessity for the actual transfer of specie was of course obviated.

The law establishing the present national banking system, passed Feb. 25, 1863,¹ took two more steps away from the act of 1846. The first was that which allowed national banks, designated by the Secretary of the Treasury, to be depositories of public moneys, except receipts from customs, under regulations to be prescribed by the Secretary of the Treasury. The reasons for prohibiting the deposit of customs receipts in the banks were that these were paid in coin, which the government needed, and that the banks had suspended specie payments. The banks might also, by this law, be employed as the financial agents of the government. They were required to give satisfactory security by the "deposit of United States bonds and otherwise, for the safe keeping and prompt payment of the public money deposited with them." Postmasters in offices within counties having no designated depositories, treasurers of mints, or assistant treasurers, or the Treasurer of the United States, might deposit in the national banks, at their own risk. This

¹ Acts, 37th Cong., 3d sess., chap. 58.

was practically a reversal of the act of seven years before, which required collecting and disbursing officers to use the government depositories. The second step backwards, under the national banking law, consisted in giving a semi-legal-tender character to the notes issued by banks formed under the new law. These notes were to be received at par in all parts of the United States in all payments to and by the government, except customs and interest on the public debt respectively.¹ Had this same use of the bank-notes been legalized two years before, Secretary Chase's hands would not have been tied; even the shadow of excuse for suspension would have been taken from the banks, the "greenbacks and depreciation" could have been easily avoided, and the monetary history of the past thirty years would doubtless have been a brighter record. This provision of law was a complete withdrawal from the position of 1846.

In this same year, 1863, to avoid the inconvenience of handling the specie which was still in use for the payment of duties and interest on the public debt, the deposit of gold coin and bullion with the Treasurer or Sub-Treasurers, in sums of not less than twenty dollars, was authorized; and certificates were to be issued for these, in denominations of not less than twenty dollars, and corresponding with the denominations of United States notes. The metal had to be kept for the redemption of the certificates which were used in the payment of interest and customs. Thus the use of the vaults of the government was given free of charge to bankers, brokers, and bullion dealers for the storage of their specie.

The suspension of specie payments had thrown gold on the market as a commodity, and speculation in it soon

¹ Section 20 of the Bank Act of 1863.

became rife. The violent fluctuations in the value of gold "reacted upon prices and turned the most legitimate of business enterprises into a kind of gambling." The principal causes of this unfortunate state of affairs were bad legislation and the accumulation of gold in the Treasury. The payments of coin received for customs dues had exceeded the payments of interest on the public debt until, in 1864, about fifty million dollars were stored in the government vaults. To relieve the situation Congress authorized the Secretary of the Treasury to sell the surplus gold for other currency. He did so to the extent of eleven million dollars, but the effect was only for a day. The fluctuations of the value of the metal continued and were aggravated by the alternate accumulation and sale of gold by the government.

By 1866 the organization of national banks was well under way, and the system had proved a great convenience. The Treasury report for 1866 says: "The employment of national banks as depositories of public moneys and fiscal agents of the government has been a great aid to the department in the placing of loans, and especially to this office, in the collection of the revenues of the government. They have within the three years ending with the month of September, 1866, received moneys on deposit to the credit of the United States as follows:—

On subscription to U. S. stocks	\$1,116,151,286 ¹
On account of internal revenue	599,936,712
From miscellaneous sources	37,443,637
Total collections	1,753,531,636

"They have paid, in various ways, and at points as directed by this office, and without expense to the government, during the same time, \$1,722,554,656."

¹ Cents omitted.

Up to this time but two banks failed to meet all the demands of the government upon them. During the next few years the Sub-Treasury remained substantially the same in its influence and mode of operations, the extent of the latter adapting itself, of course, to the needs of government business.

So close was now the connection between the banks and the financial operations of the government that the "divorce of bank and state" could no longer be said to exist. Said the *Commercial and Financial Chronicle* of April 4, 1868: "The Treasury, so far from being severed from the banks, may now at certain critical periods possess great influence over them, and has had, for some weeks past, almost despotic control over them, because it could at any time take away their legal-tender reserves by sales of gold, by sales of bonds, or by drawing down the balances in the national bank depositories."

In 1873 the government undertook virtually to perform the office of safe-depository for the banks by allowing them to deposit legal-tender notes, and received in exchange certificates of deposit prepared at the expense of the government. The deposits were withdrawable on demand. This meant that the banks could use the Sub-Treasury to keep them in notes of convenient denominations at public expense.

The banking work of the Treasury received an additional impulse in this year by the reissue of legal-tender notes that had been once paid, but which Secretary Boutwell brilliantly regarded as a "reserve" which he could put out again to increase the currency and so relieve a stringency. This was, however, but a trifling interference with business relations compared with others that had been made since the day when the country had cut

loose from the safe moorings of specie payments to which she had been determinately tied in 1846. In 1873 came the panic, and the scarcity of money was severely felt. Had the country been on a specie basis the distress would probably have been much less, perhaps scarcely felt. For fifty million dollars of gold lay in the vaults of the Treasury and sub-treasuries, but could not be used to relieve the situation because the specie was not wanted to pay private debts; for its use would have entailed a sacrifice equal to the amount of the premium on gold. Secretary Boutwell's "reserve" was brought into requisition again. In October, Secretary Richardson thought to afford some relief by instructing the sub-treasury officers to pay out silver coin to public creditors who wished it, in sums not exceeding five dollars in any one payment. But the Treasury held too few small coins to make an impression of any importance on the situation by such a step.

In June, 1878, the Secretary of the Treasury was authorized to make any mint superintendent, or the assayer of any assay office, an assistant treasurer to receive gold coin or bullion on deposit.

The next part of any importance played by the Sub-Treasury system was at the time of the resumption of specie payments in 1879. Secretary Sherman decided to pay interest in coin at the New York sub-treasury only. Other sub-treasury officers were to pay interest to all who would accept legal-tender notes. The sub-treasury at New York also became at this time a member of the clearing house, "to a certain extent and for certain purposes." The government agreed to collect its checks through the clearing house, and the latter to receive the balances due it at the counter of the sub-treasury, and

to accept legal-tender notes in payment of all government drafts. Thus the connection of the government with the banks became closer than ever. As the notes to be redeemed were government notes, the gold necessary for purposes of resumption was accumulated in the Treasury vaults and not in the banks. But resumption could probably not have been successful without the aid of the banks. The banks of New York City alone held forty million dollars of the government paper, and the presentation of these would have doubtless shipwrecked the Treasury plans. But the banks held them back, thus strengthening the government credit. Moreover, as far the largest part of the drafts on the sub-treasury passed through the clearing house, and as that organization had agreed not to call for specie, the actual demand for coin payments, when resumption began, was very small.

The independence of the government in financial operations could not well have been maintained under the financial conditions into which the nation drifted during the war. In fact, the national banks were avowedly created for the purpose of aiding the government, and their very establishment was thus an abandonment of the principle of the sub-treasury act of 1846. Whether it would have been possible to get on during the war without the aid of the banks in the placing of loans, even if the government finances had been differently conducted, is a question the correct answer to which could hardly be given in the affirmative.

But it was not only in loaning to the government, and in aiding resumption, that the banks rendered valuable services. The refunding operations that have from time to time taken place would have been at least exceedingly difficult without their aid. The amount of labor and

expense which they saved the government in these was very great. But for the use of the banks as depositories the money paid for the bonds sold "would necessarily have been placed in the Sub-Treasury to await the maturity of the bonds called under the three months' notice required by law."¹ At the end of April, 1879, the banks had sold \$389,944,295 worth of bonds, which sum would otherwise have gone into the Sub-Treasury vaults to be paid out only as the called bonds matured. Thus more than one-half the paper circulation of the country would have been withdrawn from use, and the results would have been disastrous.

The extent of the use of national banks by the government since the time of resumption has varied largely, according to the views of the administration. Before that time it was mainly dependent on the amount of the government fiscal operations. In 1866, as already related, the banks collected for the government over a billion and a half of dollars, and paid out a nearly equal amount. In the following year they held government deposits to the extent of twenty-six millions, more than was similarly held by all the sub-treasuries and other depositories in the country, leaving out that of New York. In the years following 1870 the number of banks used by the government, and their receipts and balances of public money, were as follows:—

FISCAL YEAR.	NO. OF BANKS.	RECEIPTS.	BALANCE.
1870	148	\$120,084,041	\$8,483,549
1871	159	99,299,840	7,197,015
1872	163	106,104,855	7,777,873
1873	158	169,602,743	62,185,153
1874	154	91,108,846	7,790,292

¹ Proc. Amer. Bankers' Assoc., 1880.

FISCAL YEAR.	NO. OF BANKS.	RECEIPTS.	BALANCE.
1875	145	98,228,249	11,914,004
1876	143	97,402,227	7,870,920
1877	145	106,470,261	7,555,776
1878	124	99,781,053	6,937,916
1879	127	109,397,525	7,183,403
1880	131	119,493,171	7,999,953
1881	130	131,820,002	8,933,550
1882	134	143,261,541	9,610,432
1883	140	145,974,256	10,030,698
1884	135	129,100,449	10,716,144
1885	132	119,056,058	10,985,141
1886	160	135,592,221	14,036,632
1887	200	128,482,769	19,190,076
1888	290	132,591,946	54,913,489
1889	270	139,316,214	43,305,511
1890	205	147,761,566	26,994,464
1891	185	152,389,837	22,900,329

In his report for 1885 Treasurer Jordan said that "a more extended use of the banks as depositories would result in a large saving to the government, and very much lessen the chances of loss from speculation and frauds in the conduct of the operations of the Treasury."

In 1880 an effort was made to secure the establishment of a sub-treasury at Louisville, Ky. The petition was refused, the Finance Committee of the Senate pointing out that the only advantage that the establishment would bring to Louisville would be to save its people the expense of carrying coin to the nearest sub-treasury for redemption and exchange, and that it would be cheaper for the government to pay express charges on all these shipments than it would be to maintain a sub-treasury. The committee also said: "The public revenues are now collected and disbursements made outside the sub-treasury cities, with absolute security to the government, through more than one hundred and sixty national bank

depositories." In a letter on this matter to Mr. Morrison, of the Ways and Means Committee, Treasurer Jordan wrote that at least five of the existing sub-treasuries could be dispensed with, and their functions be performed by the banks with greater economy and less risk. The offices he designated as useless were those at St. Louis, Baltimore, Cincinnati, New Orleans, and Chicago.

In 1879, as we have seen, the New York sub-treasury became a member of the clearing-house. Soon after, the associated banks¹ decided not to receive silver dollars issued under the Bland law, except on special deposit. In 1882 Congress passed a law in the interest of silver money, which made it illegal for any national bank to belong to a clearing-house association that observed such a rule. The rule of the banks was withdrawn to avoid the law, but the banks adhered to their policy in practice, and the Sub-Treasury still continues a member of the clearing-house. The banks have, however, shown more willingness to accept the coin notes issued under the law of July 14, 1890.

The advisability of a more extended use of the national banks for fiscal purpose, perhaps their complete substitution for the Sub-Treasury system, is a topic that can be more properly treated when examining the influence and working of the Sub-Treasury. The opinions of the various Secretaries of the Treasury as to the advantages of the existing system have been widely different. Secretary Sherman, in 1880, wrote that "under the existing system by which the government practically holds and disburses its own money, and that of its officers, the fiscal operations are conducted without disturbance, embarrass-

¹ The members of the clearing-house.

ment, or favoritism, and with satisfaction to all concerned." Still, he acknowledged the utility of the banks. It was under Mr. Cleveland's administration, however, that the most extended use of banks was made. In the report on the petition for a sub-treasury at Louisville, already mentioned, the Finance Committee agreed with Treasurer Jordan in asserting that a reduction of the number of sub-treasuries could be advantageously made.

In 1885 the intimate connection of the government with the banks was shown very emphatically by the reliance of the Treasury on the banks to extricate it from the difficulty into which it was brought by the reduction of its gold reserve.

Silver certificates had accumulated at money centres on account of the dulness of business, and were largely used in payments to the government. So fast did they come in that anxiety was caused as to the ability of the government to maintain gold payments. In March the New York clearing-house, in order to relieve the Treasury, offered to receive silver certificates in part settlement of government balances due it. But even this was not sufficient. By the last of May the government holdings of gold had sunk to \$115,810,533, including the green-back reserve of \$100,000,000. In July the banks of New York agreed to purchase from the government from ten to twenty million dollars' worth of subsidiary silver, and to pay for it at par in gold. The difficulty passed away after five millions of gold had been advanced to the government.¹

¹ The transaction was really a loan of gold by the banks to the government, with the subsidiary silver as security, rather than a sale; and the banks soon afterwards got back their gold. There is some doubt as to whether the transaction was really necessary, for gold began very soon to flow into the treasury. For an excellent account of the difficulty and the means whereby it

In 1886 Mr. Jordan again declared that the arrangements for collecting and disbursing the revenue were defective, and recommended a larger use of the national banks.

A bill was introduced¹ in the House of Representatives to reduce the amount of bonds required from national bank depositories and so restore to the channels of business the excessive accumulations of money in the Treasury. The bill was never acted on, and nothing came of Mr. Jordan's suggestion.

In pursuance, however, of this idea of a larger use of national bank depositories, which animated the Treasury management under Mr. Cleveland, the government deposits in banks were allowed to increase. On Jan. 1, 1887, they were about twenty million dollars. In December the amount was \$52,199,917, and in April, 1888, it had become \$61,921,294. The purpose, of course, was to restore to circulation the money taken therefrom in taxation by the government and locked up in the vaults of the sub-treasuries, on the ground that its withdrawal contracted the currency and so caused distress. The policy was reversed, however, by Mr. Windom when he became Secretary of the Treasury. In his report for the fiscal year 1889 he condemns the use of the banks except for the deposit of such sums as are necessary for the business transactions of the government. Under his management the bank deposits were reduced by October, 1889, to \$47,495,479, and he declared his intention of making a further reduction of thirty million dollars. "The national bank depositories have been, and are," he says, "useful

was tided over, see Taussig's "The Silver Situation in the United States," *Public. of the Amer. Econ. Assoc.*, vol. vii. no. 1, pp. 30-37.

¹ Dec. 20, 1886; H. R. Bill No. 10,324, 49th Cong., 2d sess.

auxiliaries to the Sub-Treasury system, but the deposit of public funds therewith to an amount largely in excess of the needs of the public service is wholly unjustifiable. Such a policy is contrary to the spirit of the act of Aug. 6, 1846, which contemplates a Sub-Treasury independent of the banks." Whether or not Mr. Windom's opinion of the benefits of the Sub-Treasury is correct, he was certainly justified in his wish and endeavor to observe the law. His objections to the use of banks will receive due consideration in another chapter.

Through all these years there occurred only two instances of loss to the government from the use of national bank depositories. Treasurer Hyatt wrote in 1887:¹ "The only losses suffered by the government on this account, since the present system was adopted, occurred over twenty years ago. Under the present method of Treasury supervision it is hardly possible for any losses to occur.

"The early losses to the government were caused by the failure of two banks, one in 1863 and one in 1864.² These losses have been more than counterbalanced by the benefit derived from the increased conveniences for collecting and disbursing the revenues of the government, without incurring any expense for transportation of funds to places where money was needed for the payment of its creditors."

An account of the operations of the Independent Treasury system during the past ten or twelve years might properly be given here. But it has operated since the time of resumption under conditions entirely different from those existing before, so that its history during the

¹ See his report for that year, p. 27.

² See the Finance Reports for these years.

late years is the history of its influences rather than of its further development, and can be more fittingly and satisfactorily traced in the discussion of these, with a view to determining whether they are good or evil. That will be our effort in succeeding chapters.

CHAPTER IV.

THE ORGANIZATION AND WORK OF THE INDEPENDENT TREASURY.

THE Independent Treasury, as at present organized, consists of the Treasury offices at Washington, nine sub-treasuries under the charge of assistant treasurers, and a varying number of designated depositories.

The supervision of the Independent Treasury comes under the charge of the chief of the division of public moneys in the Treasury Department. Among other duties, according to the rules of the Treasury, that department must perform the following:—

“The supervision of the several Independent Treasury offices, the designation of national bank and other depositories, and the obtaining from them of proper securities.

“The directing of all public officers, except postmasters, as to the deposit of the public moneys collected by them.

“The issue and enforcement of regulations governing Independent Treasury officers, and the several depositories and public disbursing officers, in the safe keeping and disbursement of public moneys intrusted to them.

“The direction for special transfers of public moneys; and generally all matters pertaining to the foregoing.”¹

The places at which sub-treasuries are at present

¹ From pamphlet on “The Organization of the Office of the Secretary of the Treasury,” pub. by Treas. Dep’t., July, 1884.

located are Baltimore, Boston, Chicago, Cincinnati, New Orleans, New York, Philadelphia, San Francisco, and St. Louis. The relative importance of each is shown by the amount of business done for the fiscal year 1891:—

	RECEIPTS.	DISBURSEMENTS.
Baltimore	\$32,461,135	\$32,599,336
Boston	77,530,496	81,617,038
Chicago	77,584,354	76,321,587
Cincinnati	22,290,595	21,516,670
New Orleans	46,828,343	47,921,294
New York	1,398,642,961	1,441,310,453
Philadelphia	109,281,569	115,982,748
San Francisco	43,954,936	39,807,728
St. Louis	57,309,348	58,081,172

The following table shows the comparative growth of the staff and expense of the sub-treasuries from 1849 to 1889:¹—

	1849.		1889.	
	OFFICERS AND CLERKS.	SALARIES.	EMPLOYEES.	SALARIES.
Baltimore			14	\$21,600
Boston	2	\$3,400	23	36,910
Chicago			18	25,900
Cincinnati			12	16,560
New Orleans	2	1,400	12	18,090
New York	6	9,100	100	177,490
Philadelphia	2	1,400	24	34,920
San Francisco			15	27,120
St. Louis	2	3,400	12	17,860
Charleston	2	3,400		
Totals	16	\$21,900	230	\$376,450

¹ The column "employees," in 1889, includes all persons who have employment at the sub-treasuries, — officers, clerks, janitors, messengers, etc.; the corresponding column for 1849 includes, as it reads, only officers and clerks. The complete list of employees for that year was not conveniently accessible.

A law of March 2, 1853, fixed the compensation of the officers of appointed depositories at one-half of one per cent. on the first \$100,000 received; one fourth of one per cent. on the second equal amount; and one eighth of one per cent. on all sums over \$200,000. The depositary paid his own rent out of the sum thus received. These provisions were not, however, to apply to offices in which the maximum compensation allowed by law was already received. Nor could any officer receive a commission that would make his total income greater than such maximum; and the whole amount received by any one depositary could not exceed \$1,500.

The exigencies of the Civil War rendered an enlargement of the number of depositories necessary until the national banks were established in considerable numbers. Depositories have existed at one time or another in the following places, in addition to the sub-treasuries mentioned in the table above: Buffalo, N.Y., Charlotte, N.C.; Dahlonga, Ga.; Denver, Col.; Dubuque, Ia.; Jeffersonville, Ind.; Little Rock, Ark.; Louisville, Ky.; Mobile, Ala.; Nashville, Tenn.; Norfolk, Va.; Pittsburg, Pa.; Richmond, Va.; Santa Fé, N.M.; Tallahassee, Fla.; and Wilmington, Del. Some of these were made assay offices by the coinage law of 1873, and others were dropped entirely.

The assistant treasurer and all officers authorized by law to act as such are required to give bonds for the faithful discharge of their duties, the amount to be fixed by the Secretary of the Treasury, and the sureties to be approved by the Solicitor of the Treasury.¹

Not only has the amount of work of the kind originally

¹ U. S. Revised Statutes, § 3600.

performed by the Sub-Treasury largely increased, but the nature of the work itself has greatly changed. As originally conceived, the Sub-Treasury was, in its organization, so simple that its accounts might possibly have been kept in the simple manner ascribed to Gouge's "ingenious cord-wainer."¹ Its duties were simply the receipt and payment of public money, in coin and treasury notes. The change is due, in general, to the growth of the scope of government financial operations, and specifically to those connected with, and consequent on, the Civil War; and also to the monetary policy that the country has pursued since.

The work of the sub-treasuries consists, in general, in receiving and paying all public money, receiving deposits of disbursing officers, and in issuing and redeeming, under proper regulations, all money of the United States. Besides the nine assistant treasurers, the superintendents of the mints at Carson City and Boise City are required by law to perform the duties of assistant treasurers. In addition to the sub-treasuries and one or two designated depositories, the national banks also are keepers of the public money. By the act establishing them provision was made for depositing the receipts from internal revenue in these banks, and they have been used by the government for that purpose ever since. An effort was made in 1868 to rescind the provision of the law making them public depositories. On Jan. 28 of that year a bill² passed the House of Representatives prohibiting the depositing of public money in banks in any cities or places in which there was a treasurer or an assistant treasurer, and prohibiting collectors

¹ See above, p. 28.

² H. R. bill 450. See House Journal, 40th Cong., 25th sess., p. 265.

and disbursers of public money from depositing public money in banks, if they were within fifty miles of a sub-treasury. The bill failed, however, to become a law.

The banks were to be allowed to hold public money on providing security by the deposit of United States bonds, or otherwise, under regulations prescribed by the Secretary of the Treasury. The custom for a long time was to allow the banks to hold public money up to ninety per cent. of the par value of the bonds deposited as security. But after the bonds rose so as to command high premiums, it became unprofitable for the banks to deposit them in advance as security for the public money, because the money reached them only as it was collected in taxes, and this was often too slow a process to be to their advantage. Moreover, the practice, in the earlier years of the system, was for the Treasurer to draw against his bank balances whenever funds were needed. "In consequence the balances were not uniform, but fluctuated from sixty per cent. to par of the face value of the security. About October, 1886, the practice became quite general to allow a fixed balance equal to ninety per cent. of the face value of the United States four per cent. bonds, and a somewhat smaller amount on four and one-half and three per cent. bonds. This rule was changed in May, 1887, and a balance equal to par allowed on four per cents. Later, in October, in view of the stringency of the money market and the amount of surplus in the Treasury, and as an inducement to banks to become depositories, the rule was again changed, and a balance was allowed equal to one hundred and ten per cent. of the face value of four per cent. bonds, and par of the four and one-half per cents, whenever a sufficient margin

remained to cover the largest deposit likely to be received in any one day.”¹

Secretary Fairchild also increased the number of depository banks at this time, and raised the limit of the amount of money that could be held by any one bank from one-half to one million dollars.²

When Secretary Windom received the Treasury portfolio he changed the policy of his predecessor as to the extent of the use of the national banks as depositories, and the amount of money held by them has been steadily reduced under the present administration.

Under the law, all collectors and receivers of public money, in places where there is a sub-treasury or a depository, are required to deposit their receipts in the sub-treasury or depository at least once a week, and may be ordered to do so oftener by the Secretary of the Treasury. Marshals and district attorneys may pay their receipts into any legal depository. Failure to comply with the provisions of the law as to making deposits renders the offender indictable for embezzlement.

Disbursing officers are required to deposit their money in the same way as are collectors, and to draw on the deposits only as it is necessary for the payment of lawful debts.

Every depository is required to keep the accounts of any money belonging to the Post-Office Department separate from his accounts of other public money received by him.

The New York sub-treasury may be taken as a model of all, and an account of its organization and work will give an insight into the system.

¹ Exec. Doc., No. 243, 50th Cong., 1st sess. (Secy. Fairchild in a letter to the House of Representatives.)

² See *Commercial and Financial Chronicle*, Oct. 15, 1887.

The sources of its receipt of money are new currency from Washington, deposits for transfer by the Treasury Department to other points, customs, transfers of public money from depository banks, sales of gold by the Assay Office, internal revenue, patent fees, the annual tax on national banks, from postmasters for the account of the Post-Office Department, deposits for the shipment of silver coin, and deposits by individuals, banks, and firms, for redemption and exchange. This last may be mutilated or worn money, or it may be money of one kind, in good condition, deposited in exchange for another kind, as greenbacks for gold, or *vice versa*. The Sub-Treasury is a money-receiving, money-paying, and money-exchanging establishment.

The sub-treasury at New York is divided into departments as follows: The receiving and the paying departments, the minor-coins department, the bonds department, and the checks department. As a matter of fact, the classification is in practice carried farther, so that there may be distinguished the general receiving, and the gold-receiving, departments; the general paying, and the coin-paying, departments; the coupon division, the registered interest division, the accounting and auditing division, and the book-keeper's division.

The general receiving department is that into which all money other than gold is paid. All notes paid in are counted and sorted here, and counterfeits detected and thrown out. National bank-notes as well as government notes are received, for the government accepts them now in payment of all dues except customs.

The "checks division" has charge of the receipt, payment, and issue of all checks. It is really a part of both the receiving and the paying departments.

The number of checks handled is very large. Probably at least two-thirds of the whole number of pensions are paid in checks on New York, making a million and a half, or more, checks annually from this source alone. Besides these, the New York sub-treasury pays checks of several hundred disbursing officers, paymasters, quartermasters, and others, who use in all nearly half a million checks a year.

In the coins division a sub-division of labor is necessary on account of the great number of coins that are received of different denominations. Hence in the minor-coins division there are clerks whose whole time is taken up in receiving, counting, and sorting coins of only one or two different denominations, as one-cent and five-cent pieces.

The coupon and the registered interest divisions are, of course, really divisions of the bonds department, and their business is confined to dealing with the public debt.

The accounting department is the one in which all checks are finally gathered, classified, entered, and verified; and all accounts of disbursing officers are rendered monthly. It may be noticed in this connection that the accounts of the general Treasury are kept separate from those of disbursing officers. In the work of this department we find an explanation of a fact which we will have occasion to notice later, that sometimes the reported receipts and disbursements of the Sub-Treasury do not correspond with the amounts of money actually received or disbursed. For there are many transfer transactions which appear only on the books.¹ For example, the Treasurer transfers from the cash in the office, held on

¹ For the form of a correct currency statement, see Appendix, p. iii.

account of the general Treasury, a million dollars, to be placed to the credit of a pension agent, against which the latter issues checks. On the books that is treated as a payment from the general Treasury and a receipt by the pension agent's account, although no money is actually paid out until the pension agent's little checks begin to come in.

The names of the other departments carry with them a sufficient explanation of the work done in them. A brief account of the mode and conditions of the issue and redemption¹ of currency by the Sub-Treasury will be interesting.

All United States notes, and all national bank notes, that are unfit for redemption, are replaced with new notes at the Treasury, or at a sub-treasury, free of charge; and United States notes are redeemed in gold, in sums not less than fifty dollars, at the sub-treasuries in New York and San Francisco; gold certificates are issued for not less than twenty dollars on deposit of gold coin at a sub-treasury; silver certificates are issued for silver deposits, or for other, worn-out, certificates; and treasury notes of the law of 1890 are exchanged for silver bullion.

Silver dollars are exchanged at the Treasury or a sub-treasury for silver certificates or silver bullion notes; and fractional silver is issued in any amount desired in exchange for government or bank notes. On the other hand, fractional silver coin and minor coin may be deposited in sums of twenty dollars, or multiples of twenty, and "lawful money" received in exchange. Standard silver dollars are exchangeable for silver certificates only.

¹ For a full account of the rules at present governing the issue and redemption of currency, see Appendix, p. vii.

Under the head of issue and redemption of currency is included the transfer of money from one part of the country to another. The transfer here spoken of must be distinguished from the transfer of the government's own money. This transfer relates to the money of individuals or of banks deposited at some sub-treasury. Formerly the banks themselves paid the full expense of shipping money to the interior to meet the demand for "moving the crops." But after the Bland silver law went into effect it was soon found that the silver dollars were accumulating in the Treasury, instead of passing permanently into circulation. To overcome this difficulty the Secretary of the Treasury took advantage of the usual fall movement of the currency to send silver to the interior, and at the same time to increase the Treasury reserve of gold. In September, 1880, he issued a circular authorizing the delivery of silver certificates at sub-treasuries in the interior, in exchange for gold deposited at the sub-treasury in New York, and the government paid the express charges. The order was rescinded in January, 1885, and the present system adopted instead.

In the crisis of 1890 a farther step was taken. To relieve the money market at that time the Secretary of the Treasury authorized the assistant treasurer at San Francisco to receive deposits of funds from bankers who desired to transfer them by telegraph to the assistant treasurer at New York. The purpose was to enable those having money in San Francisco, which was not needed there, to transfer it for immediate use in New York. The same privilege was promised to other places at which there were sub-treasuries, if it proved of any service in affording relief. The order was soon complained of, however, by the San Francisco bankers, on the ground

that it diminished their available reserve. The amount of transfers under the circular was over three million dollars. The rules at present governing the transfer of money for banks are given in full in the appendix.

There are many interesting points of detail that are worth noticing. The visitor to the Treasury, or to a sub-treasury, is always interested in seeing the provisions for the safe keeping of the money on hand. It is kept in vaults, or strong rooms, usually in the basement of the building. There are five of these vaults in the New York sub-treasury. Four of them are bright apartments, well lighted by electricity, on the main floor of the building, one on each side, and one under each of the Pine Street side corners of the rotunda floor. These "vaults" are simply large safes, or strong rooms, full of steel drawers, and fitted with steel walls, ceilings, floors, and doors. The fifth strong room may be accurately termed a vault; it is the largest of the five and is situated in the basement. "Just where all this money is stored, on the site of the Sub-Treasury, once stood old Federal Hall, where the first Congress of the United States met when the future of this country was in the balance; and in front of the Sub-Treasury building was George Washington inaugurated as first President of the United States." ¹

Fitted into the walls of the vaults in which silver is kept are iron boxes, or closets, of uniform size, each large enough to hold one hundred bags of silver containing five thousand dollars apiece. As much as forty or fifty million dollars of silver is sometimes collected in a single vault.

The notes are stored in packages, each denomination

¹ New York Times, Nov. 9, 1890.

by itself, and one thousand notes to a package. This arrangement is convenient both for storing and for counting.

There is a large portion of the money in the sub-treasury that is constantly on deposit; that is, is seldom paid out. This is true of the larger part of the silver, which is represented in circulation by certificates. This money is kept in vaults sealed with the seals of the assistant treasurer and of some representative of the Treasurer of the United States. When it becomes necessary to open one of these vaults, the seals must be broken and the vault unlocked in the presence of both parties interested, or in that of their duly appointed representatives.

The ordinary vaults, those which are in use every day, are in the charge of a vault-keeper, cannot be entered except in his presence, and even then only during business hours, because most of the vaults are fitted with time locks.

The accounts of the sub-treasury are, of course, balanced every day, and a statement of the day's business is forwarded to Washington.

Not the least interesting work performed at the sub-treasury is, to the casual visitor, the details of the redemption of currency. Mutilated currency usually reaches the sub-treasury in the form of deposits, or is sent in for redemption by the banks, while very often men come alone and make inquiry about doubtful bills. The deposits contain new as well as old notes, and sometimes counterfeits. The clerks assort the bills as they are counted, putting together those that are still fit for circulation. The larger part of the mutilated money consists of bills of small denomination, ones, twos, and fives

forming the heaviest contribution. The good bills are sent over to the paying department for disbursement, while the mutilated ones are tied up in packages of one hundred bills each, and are cancelled by having a hole of about the same diameter as that of a lead pencil punched through them. The punched bills are then sent on to Washington, where they are counted; they are then split in halves lengthwise, and are recounted twice. If the count is found to be correct, the cancelled bills are then ground into pulp and so destroyed.

The clerks in the receiving department, besides culling out the mutilated bills that come into the Treasury, are on the constant lookout for counterfeits. So quick are they in detecting spurious paper, that, although they may be counting bills at the rate of one hundred a minute, the momentary glance at a bill as it passes under their eyes is sufficient to let them know whether it is good or bad. On an average between two hundred and three hundred counterfeit bills a month are brought into the sub-treasury. When a counterfeit is found it is stamped with a steel die that cuts the word "counterfeit" in large letters out of the bill. Counterfeits are not, however, confined to notes. There are counterfeit coins also. Filled coins are the most dangerous of this class, especially filled gold coins, as they are the most profitable. The coin, in this case, has been cut open and a portion of the gold taken out; it is then filled in with some base metal which gives it approximately correct weight. These coins circulate with the public, but the sub-treasury clerks promptly detect them and throw them out.

The precautions taken for preventing robbery are, of course, great. The contrast between the defences of the New York sub-treasury and those which Gouge so graph-

ically described in 1857¹ is, in its degree and kind, of the same general character as that between the state of the progress of the country then and now. Iron shutters, steel-barred doors, and a dozen or more armed watchmen and detectives, furnish security to a mass of treasure greater probably than the founders of the Independent Treasury ever dreamed would be in its possession.

¹ See p. 55.

CHAPTER V.

THE INDEPENDENT TREASURY AND THE
MANAGEMENT OF LOANS.

WRITING in 1853, Mr. Andrew D. Young speaks of the Sub-Treasury as existing with the silent "acquiescence of the popular will, if not the positive approval of the public judgment."¹

It is inevitable that an institution established under the auspices which witnessed the adoption of the Independent Treasury should receive hostile criticism from many quarters. Besides the many attacks made on political grounds, in the turbulent party warfare which raged in bitter violence through the years immediately preceding its final establishment, it has from time to time ever since been a mark for the shafts of many foes, who, from motives interested or disinterested, have branded it as an institution so baneful in its influence on the business interests of the country that it ought to be abolished. Opinions of this nature cannot now be suspected of being based on mere political partisanship. Indeed, so far as the question of the advantages of the system can now be called a matter of party politics at all, it is one on which the two great parties seem largely to have changed positions. The Sub-Treasury is, in its origin, a Democratic institution. But to-day we find its benefits questioned more by Democratic politicians and statesmen than by

¹ See p. 38.

those of Republican affiliations. In fact, some of the latter seem to regard the Sub-Treasury as almost the only fruit of Democratic power and legislation for which that party can be commended. But others besides party adherents have attacked the Sub-Treasury, and on grounds altogether disinterested; on reasonable, scientific grounds that command attention and compel the admission that the question of its benefits is fairly open, and is to be settled only by an examination of its influence on the business of the country to-day, and under conditions very different from those which prevailed at the time of its establishment. Adverse judgments have been pronounced on the system almost every year since its adoption. One has already been quoted, that of the *Bankers' Magazine*. It is to be noticed, however, that the position of that magazine is different to-day. In the issues of October and November, 1890, it mentioned the matter, saying editorially in the former: "The remedy, proposed a thousand times [for relieving stringencies in the money market] is the abolition of the Sub-Treasury Department, and the putting of the government deposits in the banks. This, however, we believe would be no help at all, for the banks, doubtless, would lend these deposits just as they do others, and, therefore, there would be nothing left, especially for times of stringency. . . . This remedy, therefore, has no merit whatever. What is needed is a reserve somewhere, and for aught we see, the government might just as well keep it as the banks." In 1856 Dr. Calvin Colton wrote:¹ "This government institution, therefore, thus becomes an interfering power with the banking operations of the country to disturb and embarrass them. . . . In this way all the contingent

¹ "Public Economy for the United States," A. S. Barnes, 1853.

wealth of which the people of the United States may at any time be deprived, by the operation of the Sub-Treasury, in subverting the banking system of the country, reducing the circulating medium when it is most wanted, embarrassing trade, and circumventing commerce, is a tax."

In 1867, Mr. J. S. Gibbons, in his "Public Debt of the United States,"¹ condemns the system in terms of still greater severity. "The Independent Treasury," he says, "aggravates every disadvantage of the public debt, increases the expenses, gives no special security to the custody of the funds, is a vast lever of political corruption, a perpetual threat over the markets, and a violation of the first principles of economy." He further declares the system to be a return to the primitive "strong-box" method of more unsafe times, and asserts that it has influence in increasing the burden of taxation.

The author of "Money, Trade, and Banking"² declares the Sub-Treasury to be "the one obstacle that stands in the way of a prompt withdrawal of all forms of government demand notes." He further pronounces it a great curse, as giving to the Secretary of the Treasury powers that no man should have, making him lock up money from circulation, an action which is illegal for the banks; and as alternately inflating and contracting the currency, and thus keeping the people in suspense; and, finally, he declares that "the vicious Sub-Treasury system and the government legal tender note system supplement and support each other to the good of none and the injury of all." Prof. J. Laurence Laughlin, of Chicago University, is also a critic of the institution. In an excellent dis-

¹ Chas. Scribner and Co., 1867, p. 127.

² J. H. Walker; see page 84.

cussion of the subject in the *North American Review* for December, 1883, he asserts that "the chief objection to the Independent Treasury system of to-day is that it has been outgrown by the country; that it is economically wasteful in proportion to the magnitude of its dealings; and that, by its effect on the reserves of the banks, it is becoming dangerous to the banking and business public." Still another quarter from which hostile shafts of criticism have been hurled at the Sub-Treasury is that of the United States Treasury itself. It has been wounded in the house of its friends, and declared a nuisance by the representatives of the party that gave it birth! As already noted, under the administration of President Cleveland the Treasury officials regarded its influence as evil. "The causes which led to the adoption of the Sub-Treasury system no longer exist. . . . In 1846, when the present system was adopted, there was a general feeling that the government deposits were insecure, and that the character of the State banks was such that they could not be properly selected to act as fiscal agents of the United States."¹ Secretary Windom, on taking the Treasury portfolio, thought it incumbent on him to vindicate the institution which his party forefathers had opposed, by reversing the policy of his immediate predecessor as to government deposits in the national banks.

Other opponents could be mentioned, for there are many; but these are sufficient to arrest attention and command an examination of the subject with a view to determining whether their position is well taken.

The ground of attack has, however, changed. In the early days of the Independent Treasury, one strong reason assigned for denouncing it was the very purpose of its

¹ Doc. 1834 of Sen. Com. Repts. (on H. R. Bill 902), 49th Cong., 2d session.

establishment; namely, that it separated the government entirely from private business. The basis of attack on the institution now is that it is government interference with the business of the country. If this change of base on the part of the critics be justifiable, it must be due to a change in the functions of the Sub-Treasury. The changes which have taken place in the character of the institution have been noticed in the preceding chapter. Whether it is capable of doing well the work that now falls to it, and in what way it influences the business community, must now be our inquiry.

Government financial machinery should be capable of adaptation to the various sets of circumstances which a government is at different times called on to pass through. It should be such as will work with reasonable smoothness, and without injurious influence, both in war and in peace, in times of financial distress and in the periods of ordinary business activity. Our examination, therefore, naturally falls into three parts: the operation of the Independent Treasury during war, with the possibly concomitant *régime* of paper money; the influence of its action on the business of the country in ordinary times, and its workings in the stormy periods of financial life known as crises and panics. Fortunately, from the scientific point of view, the system has been in operation in each of these different sets of circumstances. The experience of the Civil War furnishes sufficient data for determining its usefulness as a fiscal engine at such times; the succeeding years will afford opportunity for testing the efficiency of the system in great transactions of refunding the public debt and resumption of specie payments; and its working in the last few years must be the basis of our judgment of its value in ordinary times and in crises.

The Mexican war and the Civil War have both occurred since the Independent Treasury became the established medium for the collection and disbursement of the revenue. But the two wars were so different in the magnitude of their operations, and, consequently, in their demands on the resources of the country; the industrial condition of the country itself was so different in the two periods; and the scale of fiscal operations of the government in the latter case was so much greater than in the former; that the data of the two periods would, considered by themselves, teach very different lessons. Yet, even in the former, the Independent Treasury was found to cause difficulty in placing loans. The first time that such a difficulty was experienced was in 1846. In October of that year Secretary Walker advertised for the exchange of three million dollars of treasury notes at par for specie. Very few responses were made, however. "The magnitude of the loan, the fluctuations below par of the previous stocks and notes, the untried, and, to many, alarming restraining operation of the Constitutional Treasury, the heavy expenditure of the war, and the requirements of all payments from time to time in specie, were deemed by many as insuperable obstacles to the negotiation of the whole of the loan at or above par." The contractile influence of the Sub-Treasury was evident even at that early day, and this, together with the refusal to accept anything but specie, interfered with the placing of loans. Yet, in the opinion of the Secretary of the Treasury, the refusal of the government to receive or pay out anything but specie in its transactions enhanced its credit and so made its efforts to place loans more successful than they would otherwise have been. This opinion was doubtless to some extent correct.

It is the Civil War, rather than the Mexican, that is typical of what the scale of operations of any future war that we may engage in will probably be, and its lessons are, therefore, correspondingly the more valuable. Our main attention must consequently be given to it.

The struggle opened with the country in a good industrial condition, but with a revenue altogether inadequate to the prosecution of a great war, and with a system of taxation which could not easily be so adjusted as to produce such a revenue. The government was thus compelled to rely on its credit for immediate resources, and the policy of carrying on the war largely by borrowing was practically adopted. It was in the attempts to place the large loans suddenly made necessary by the tremendous increase in its expenses that the Treasury Department first found the means at its disposal, in the machinery of the Sub-Treasury, inadequate to perform the services demanded by the exigencies of the new situation.

A complete separation from banks made it necessary for the Treasury to be its own broker. It had to sell its own bonds. It had succeeded in doing this with the loans issued during the war with Mexico, and on several occasions afterwards. But these operations were trifles compared with the gigantic transactions which the Treasury was called upon to undertake when confronted with the financial problems of the Civil War. The amount borrowed in the single year ending December, 1861, was over three hundred millions of dollars, while the loans contracted during the whole Mexican war summed up only forty-nine millions of dollars. It was not easy for the Treasury to constitute itself a broker's office on so large a scale, and the process would have been too slow to meet the needs of the financial situation.

Secretary Chase was early impressed with the fact that "the safest, surest, and most beneficial plan would be to engage the banking institutions of the three chief commercial cities of the seaboard to advance the amounts needed for disbursement."¹ Accordingly, he conferred with their representatives, and, on their agreeing to advance the money he asked for, undertook "to issue three years 7.30 bonds or treasury notes, bearing even date with the subscription, and of equal amount; to cause books of subscription to the National Loan to be immediately opened; to reimburse the advances of the banks, as far as practicable, from this national subscription; and to deliver to them 7.30 bonds, or treasury notes, for the amount not thus reimbursed." The object of turning to the banks was to secure the needed money speedily; but the Secretary wished to give the public an equal opportunity with the banks to subscribe for the loan, while yet avoiding competition with them in the disposal of the bonds. The direct popular subscriptions amounted to a little more than half the \$50,000,000 advanced by the banks. The second loan of \$50,000,000 seems to have been advanced wholly by the banks; and "as no reasonable prospect appeared of obtaining terms equally advantageous by advertisement, . . . the Secretary . . . arranged this third loan also [of Nov. 16, 1861] with the associates,"² that is, with the banks. Secretary Chase did attempt to place loans directly, that is, to make the government its own agent; and at the same time he tried to diffuse the loans. One of the objects which, in his report for 1863, he tells us he kept steadily in view, "in the creation of debt by the negotiation of loans or otherwise," was "gen-

¹ Finance Report, 1861, p. 8.

² *Ibid.*, p. 9.

eral distribution." The finance report for 1863 records a certain amount of success in the attempt to place some of the later loans by popular subscription. "The general distribution of the debt into the hands of the greatest possible number of holders," wrote Secretary Chase, ". . . has been accomplished . . . by arrangements to popularize the loans by giving to the people everywhere opportunities to subscribe for bonds. These subscription arrangements have been especially useful and successful. They have been adopted as yet with reference to only two descriptions of bonds, — the two commonly known as seven-thirties and five-twenties. . . . The plan of distributing the seven-thirties was that of employing a large number of agents in many places, and directing their action from the Department. It worked well for a time, but was soon found inadequate to the financial necessities of the government." Accordingly this plan had to be abandoned, and the work intrusted to an agent; that is, a banker or broker was employed. In June, 1864, Secretary Fessenden, who had succeeded Mr. Chase, found it necessary to get more money; accordingly, he advertised a loan, which he was compelled to withdraw within a few days, as the public would not subscribe on the terms offered. He turned to the banks, but they insisted on terms to which he would not agree, and so he issued greenbacks. Thus from the beginning of the war, as early as 1861, the Secretary had been compelled to rely on the banks for aid, and his report for 1862 gives full acknowledgment of their assistance.

The final break-down of the government independence of the banks in raising loans was emphasized by the establishment of the national banks. In fact, the primary

purpose of creating the national banking system was to make a market for government bonds. Secretary Chase, "in his report for 1862, said that among the advantages which would arise from the establishment of a national banking system would be the fact that the bonds of the government would be required for banking purposes; a steady market would be established and their negotiation greatly facilitated; a uniformity of price for the bonds would be maintained at a rate above that of funds of equal credit, but not available as security for circulation."¹

The causes which made it necessary for the government to depend on the banks during the war are obvious enough. In the first place, even if the government had established a net-work of agencies over the country for the purpose of receiving subscriptions to its loans, the plan could not have been successful in meeting its financial needs. For the money was needed immediately. The loans had to be placed quickly, and their collection in dribblets, so to speak, even if possible in course of time, would not have filled the coffers of the Treasury with sufficient rapidity for its needs. The vaults of the banks were the only place where large amounts of money could be immediately and directly obtained, because it was in them only that sufficiently large amounts were already collected. This necessity for rapidity in getting the money would of itself suffice to render almost useless, at the beginning of a war, a system of agencies for popular subscription.

Still another explanation of the resort of the government to the banks for loans is the fact that the arousing of confidence is an essential element in the floating of a

¹ Report of the Comptroller of the Currency, 1879, p. 113.

loan, and for the government to have established confidence directly in the minds of thousands of individuals subscribers would have been, under the existing circumstances, a very difficult task. But when the banks showed sufficient trust in the government to loan it their funds, the establishment of public confidence received a powerful impulse. For the banks are institutions which are supposed to know the trustworthiness of those to whom they lend, and individual capitalists will follow where they lead.

The lack of confidence in the government was manifest on several occasions. "The prospect of negotiating a loan in the ordinary way," the Secretary tells us in 1864, "was by no means flattering, as the notice for a loan of thirty-three millions, advertised on the twenty-fifth day of June, had been withdrawn on the 2d of July. . . . The Secretary thought it advisable to borrow . . . fifty millions of dollars of the banks."¹ The negotiations fell through, however, and the Secretary again advertised for a loan, incurring considerable expense, and offering "liberal inducements to stimulate the effort of corporations and individuals to dispose of their notes." But the effort was only partly successful.

The temporary partial success in 1863 of the attempt to place loans by popular subscription may perhaps be ascribed to the change that the government made at that time in its financial policy for the management of the war. The inadequacy of the loan policy was seen and steps taken to increase the revenue from taxation.²

¹ Finance Report, 1864, p. 20.

² See H. C. Adams's "Public Debts," pp. 127-131. A table is given there showing the course of the government credit during the war; its uniformly downward course was temporarily checked towards the end of 1863.

The government may be dependent on banks and bankers for the success of its financial measures, even although it does not employ them as agents to sell its bonds. The Secretary of the Treasury may be his own broker, may be administratively independent of the banks, and yet virtually dependent on them. For he may be compelled to turn to them as the only available purchasers of bonds, and if so, he must adjust the terms of his loan more or less to their conditions. This happened in the Civil War, and it was this necessity that led to the national banking law, which was an effort to force the banks to sustain the public credit. The law was a confession of the inability of the government to get on without the help of the banks.

The amount of bonds held by private citizens may be fairly regarded as a measure of the success of the effort to "diffuse" the loans by popular subscriptions. The figures for the years immediately after the war are not available; but there is no reason to think that the analysis of the holdings of the public debt made in the census of 1880 represents a state of affairs very different from that which originally prevailed. Professor H. C. Adams summarizes that investigation by saying, "It thus appears that out of a total of over one billion of registered debt, private citizens of the United States were proprietors of the comparatively small sum of \$417,538,850." ¹

The dependence of the government on the banks during the Civil War was, then, real, even in the instances in which it acted as its own broker, because it had to turn to the banks as customers for its issues of stock; but even this amount of dependence was contrary to the spirit, if not the letter, of the act of Aug. 6, 1846. For the

¹ "Public Debts," p. 45.

whole tenor of the arguments of the advocates of the Independent Treasury was that the government should have nothing whatever to do with the banks.

The linking of the affairs of the government with those of the banks may be shown to exist in other ways than in mere dependence on them as customers, or as agents for the sale of bonds; although, to be sure, this close connection can be fairly considered as only an incident of the banking system which was adopted. Even if the government had not sold any bonds to the banks, yet those institutions must have bought them from private holders, in order to deposit them with the United States Treasurer as security for their notes. This deposit, as is well known, makes the government the guarantor of the bank notes; and a connection of this kind is unquestionably foreign to the purpose of the framers of the Independent Treasury law.

Thus by the exigencies of the war the independence of the government with reference to banks was set aside, both formally and virtually, in the matter of negotiation of loans: formally, in those instances in which the government employed them as its agents; and virtually, even in those cases in which, though acting as its own agent or broker, it still had to rely on the banks as the immediate source of the money which it borrowed.

It may be said that the necessity for relying on the banks as a source of loans was a mere consequence of the conditions of the war and not a defect of the Independent Treasury system. But it must be insisted in reply, first, that these conditions are similar to those which we must expect to recur if we should be unfortunate enough to be involved in another great war; and second, that the lack of adaptability of the fiscal system to these conditions

must, therefore, vitiate the system and render it unsuitable in a great war.

The use of the banks directly or indirectly, for floating loans, was the first step in the abandonment of the principle of fiscal independence adopted fifteen years before. The second step followed necessarily, and consisted in once more making the banks, to a certain extent, depositories of public money. Indeed, the circumstances of the situation made them so by the very fact of their receiving subscriptions to the government loans. And it was not long before the general suspension of specie payments cut away the foundation of the act of 1846, so far also as it relates to the use of "hard money" in government payments. For the suspension of specie payments by the banks made a similar step a matter of necessity for the government. The receipts from taxation were not large enough to enable the Treasury to pay all its debts in coin, and the banks were drained of their gold by their advances to the government, which the Secretary of the Treasury required should be in specie. As the Secretary could not borrow fast enough to meet his needs, and as he could not use bank-notes, government paper — the well-known "greenbacks" — had to be resorted to.

The separation of the government from the banks could not prevent a suspension of specie payments by the government, although the authors of the law of 1846 thought it could. They made provision, indeed, for treasury notes, but these were always to be equivalent to coin. But with the greenbacks even the pretence of specie payments was soon abandoned, and there was a repetition of the old lesson in monetary science, that not even the power of a great government can keep its notes equivalent to coin when they are issued in excess. Could the green-

backs have taken the place of the bank-notes in circulation, instead of being added to them, the inflation and depreciation would probably have been less; but owing to existing laws, and to the state of public and Congressional opinion, they could not do so, and hence they constituted a clear addition to the circulating medium of the country.

During the Civil War, then, the Independent Treasury law was really inoperative. It was entirely so, practically, except for the maintenance of specie payments in customs receipts and in interest on the public debt; and it was partly so even according to law, because it was deemed necessary to suspend certain sections of the sub-treasury act.¹ The very purposes for which the system was created, separation from banks and maintenance of specie payments, were both abandoned owing to a stress of circumstances at least some of which were brought about by the very system that was created to obviate them, the purpose of whose establishment was to render them impossible.

The experience of the Civil War would seem to show, then, that, even if it be considered best for the public Treasury to negotiate its loans directly with individual subscribers, the machinery of the Sub-Treasury is entirely inadequate to enable it to do so successfully under the stress of a war, and that the system is not a guaranty, as it was supposed by some of its authors to be, that the government would, under all circumstances, be freed from the evils of depreciated paper.

For the depositing and safe keeping of internal revenue receipts also in time of war the sub-treasury system is unwieldy, if not inadequate. The collection of the great

¹ See Appendix p. ii. H.

receipts at such a time, by means of a complex and greatly ramified system of taxation, from many different sources, and from points often remote from a sub-treasury or a United States depository, was found inconvenient and expensive, and also dangerous, because the money had to be intrusted to inexperienced collectors often hastily appointed. These difficulties were so strongly felt that when the national banks were established they were made depositories of money received in payment of internal revenue taxes. The fiscal growth of the country was far beyond the confines set for it by the Independent Treasury act. The channels provided by the system were neither sufficiently large nor sufficiently ramified to carry the increased streams of revenue with the rapidity necessary for the needs of government. The "boot" system of single-entry book-keeping, which Mr. Gouge had in 1837 deemed sufficient for the fiscal business of the country, needed to be replaced with numerous chests, so to speak, and with a system of double entry.

The only important service of the Independent Treasury during the war and immediately afterwards was to keep the supply of gold received in payment of customs dues, wherewith to pay the interest on the public debt during the period of paper inflation. In supplying the needs of the government in this respect, the Independent Treasury performed, of course, a real service. But this service was rather an accident of the unsound financial management of the war than a result of the nature of the Independent Treasury. That is, if the financial management of the war had been such as to render unnecessary the use of a depreciated paper currency, there would have been no call for this service from the Independent Treasury. Moreover, in so far as it absorbed gold beyond

what the government required for such payments as had to be made in specie, it promoted gold speculation, and so caused injury to legitimate business.

As a fiscal engine in time of war, then, either for the placing of loans or for the collection of revenue, the system must be regarded as, on the whole, a failure. As a matter of reason it could not have been expected to do the work required in a war of great magnitude; and this rational expectation has been confirmed by the experience of the Civil War. Under that stress the machinery of the system was thrown aside, and the law establishing it became, for a time at least, a dead letter.

More can be said, however, in favor of the Independent Treasury as an engine for the performance of refunding operations, although even for that purpose it is not wholly efficient, at least for operations on so gigantic a scale as that which, soon after the war, began to testify to the growing credit of the government and the industrial development of the country. Here, again, as in the placing of loans and the collection of revenue, there is needed a great net-work of agencies all over the country, and this net-work can be well supplied only by the banks. Secretary Sherman wrote in 1880:¹ "Without the aid of the national banks the unprecedented refunding operations of last year would have been almost, if not quite, impossible." The need which the government would feel for depending partly on the banks in measures of refunding, is of a somewhat different kind from that which made them indispensable in the financial operations of the war. In selling bonds for refunding purposes, the Treasury often can be, to advantage, its own broker. The experience of Secretary Sherman shows that the government

¹ Letter to the Convention of American Bankers, 1880.

itself could place bonds on the market at less expense than if it sold them through syndicates of bankers. "Previous to the summer of 1877 all operations in refunding were carried on by syndicates, the commission allowed being the total amount¹ appropriated by the law to cover the expense of conversion. . . . But when Secretary Sherman took the Treasury portfolio, the plan of placing bonds by syndicates was abandoned for sale upon public advertisements, or, as it was termed, 'under circulars.' This plan was followed for the entire amount of four per cents, with the exception of about fifteen million dollars, which were secured on a foreign contract. . . . The success of the policy of sale by circulars may be seen from the following facts: The total sale of four per cent. bonds amounted to \$740,847,800; the cost of this sale, according to the plan followed by the other Secretaries, would have been \$3,704,239; by the method adopted by Mr. Sherman it was effected at a cost of \$2,645,802.60. The teaching of this experiment is . . . that in matters of administration it is wise for the government to keep itself independent of the agencies of the banks. Popular enthusiasm brings banking support, but banking enthusiasm cannot arouse popular interest."²

But could the national debt have been so easily and so soon refunded at lower rates of interest if the national banks had not furnished a ready-made market for the new bonds as a basis for their circulation? There is, at least, some doubt whether it could have been. The forced market created by the banks for the bonds enhanced the credit

¹ The usual rate allowed syndicates for placing loans during the war was one per cent. In 1870 it was reduced to one half of one per cent.

² H. C. Adams's "Public Debts," pp. 235-238. Although banking support may not arouse popular interest, it may inspire confidence.

of the government, and enabled it sooner to command better terms for its loans. The difficulty experienced in 1891, in the attempt to refund the three and one-half per cent. bonds at one and one-half per cent. is an illustration of the point under consideration. The banks refused to exchange the bonds they held for others at less than two per cent., and the Secretary had finally to adopt that rate. If in so small an operation as this one was the Treasury had to accede to the demands of the banks, certainly it was much more dependent on them in the refunding operations which were so large that, if the banks had not had their own terms they would have presented their bonds for payment and seriously embarrassed the government.

Of course, if the refunding operations consisted in the mere direct exchange of bonds between holders and the government, — that is, if present holders were willing to give up their stock in exchange for a new issue at a lower rate of interest, — the transaction might be regarded as one of mere book-keeping, and the government offices could do the work without interfering with business. But when, as was the usual method, new bonds must be sold for cash to redeem the old ones, great injury might be done, by contracting the currency, if the money paid in for new bonds had to lie idle in the vaults of the Sub-Treasury, to await the maturity of the bonds called in under the three months' notice of redemption required by law. This evil could be obviated under the independent method of placing loans, only if money received for new bonds were paid out for old ones as fast as it came in. When, however, the bonds are placed through the banks the money paid for them is not taken from the channels of commerce at all for any considerable length of time.

Moreover, here again, as in time of war, the large stock of money is held by the banks, or can be most easily brought out through regular banking channels.

As illustrations of the aid rendered by the banks and bankers in refunding, we may cite some of the operations between 1870 and 1879. In August, 1871, over sixty-five million dollars' worth of five per cent. bonds were subscribed for, "chiefly by the national banks." In the same month, the firm of Jay Cooke & Co. contracted for two hundred million dollars' worth of the same bonds. In 1876-77, August Belmont & Co. purchased four and one-half per cent. bonds to the amount of two hundred million dollars. During the first four months of 1879, \$497,247,750 worth of four per cents were sold, one hundred and twenty-one millions being taken by the First National Bank of New York and associates, and the remainder by other national banks.¹ It is needless to mention the unprecedented operations in debt conversion in still more recent years. In all of them the assistance of the banks was indispensable.

Thus, again, during and after the Civil War, as after the Revolutionary War and that of 1812, the nation was driven to avail itself of the aid of the banks. "The first Bank of the United States absorbed nearly one-fifth of the public debt in 1797. The second Bank of the United States carried about the same proportion of the debt of 1816. When the Civil War closed, in April, 1865, the newly organized national banks had aided the Treasury in placing and carrying the immense loans required to maintain the armies and fleets in active service for four years, and held themselves government paper to the amount of \$390,000,000."²

¹ Report of the Comptroller of the Currency, 1879, p. 108.

² Richardson's "The National Banks," p. 112.

A break-down of the Sub-Treasury system at still another point became manifest when the country came to face the question of resumption of specie payments. The facts show that if the Treasury had been left to its own resources, — that is, if it had been “independent,” — resumption probably could not have taken place when it did.¹ “In the resumption of specie payments, and in the funding of the national debt, . . . the co-operation of the national banks has been of essential service to the government. The banks, in the aggregate, have constantly kept on hand, as reserve, nearly one-fourth of the entire amount of legal-tender notes outstanding, which, together with the coin, is much in excess of the amount of the reserve required by law.”² The connection made with the banks through the New York clearing-house practically relieved the Treasury of the necessity of making coin payments to any large extent, because the clearing-house agreed to accept legal-tender notes in payment of all dues from the government. Moreover, the banks, although holders of more than one-third of the amount of government notes outstanding, refrained from presenting them for redemption.³ If the banks had demanded the redemption of these notes, the attempt at resumption would have been gravely imperilled. At this time again, as in the case of the bonds sold to carry on the war, the banks were the only source whence it was practicable to draw large sums: they had large accumulations of gold, and were the channels through which more could readily be obtained by means of subscriptions. For “the inconvenience of

¹ For an account of the operations of refunding and resumption, see Report of the Secretary of the Treasury on “Specie Resumption and Refunding of the National Debt,” Exec. Docs. 46th Cong., 2d sess., vol. xvii., 1879-80.

² Finance Report, 1879, p. 20.

³ Finance Report, 1879, p. 114.

obtaining coin outside of the large cities forbade any direct appeal to the great body of the people."

But in still another way was the aid of the banks rendered, a way which made them an essential part of the resumption machinery. They were the agents of the government in negotiating the loans necessary to secure gold for specie payments. As Secretary Sherman pointed out in the letter mentioned before,¹ but for the use of the banks as depositories the money received for bonds would have been withdrawn from circulation for deposit in the Treasury vaults, to await the maturity of the bonds called in. The banks bought, during the first four months of 1879, nearly five hundred million dollars' worth of four per cent. bonds. The absorption by the Treasury of all the money thus paid in would have contracted the currency of the country over fifty per cent. Distress was caused by the gradual contraction that went on for the five years preceding resumption, and raised an outcry against the attempt to resume; such a contraction as would have taken place had all the money paid in for the new bonds been kept in the Treasury, would undoubtedly have caused suffering sufficient to arouse against resumption such opposition as would have rendered its success at least problematical. The aid of the banks here was absolutely indispensable. This view of the case is not weakened by the fact, sometimes brought forward to belittle the aid rendered by the banks at this juncture, that, although for them to have sent in their treasury notes for redemption would have been to destroy the credit of the government, it would have involved themselves also in ruin. For the dependence of their safety on that of the government was a condition for

¹ See p. 75.

which the government, and not the banks themselves, was responsible.

As an agency for the fiscal operations during and consequent on a great war, it is evident, then, that the Independent Treasury can have but a limited scope, namely, that of keeping the gold wherewith the government may make its specie payments. But it can have even this limited scope only on the supposition that the country is on a paper basis. To be sure, that is a condition of affairs which has very frequently occurred in countries carrying on great and prolonged wars; but its necessity, in the case of a wealthy country, like England or our own, is by no means self-evident. It rather seems possible for such nations to maintain specie payments even under so great a stress as we endured in the Civil War.

If better financial management in the case of future wars should prevent a degeneration to the use of irredeemable paper, even the present restricted possibilities for usefulness in war would be taken from the Independent Treasury. A state of war is, indeed, exceptional; and the fiscal machinery needed under its conditions must, as a matter of course, be exceptional also. But the unusualness should not lie so much in the nature of the machinery as in the extent of its operations. The creation of a new system for the collection and disbursement of revenue, difficult under any circumstances, is doubly so under the strain of war, and should be unnecessary then. If, as was the case in the Civil War, specie payments be suspended, and if the suspension continue after the restoration of peace, the action of the Independent Treasury, as already pointed out,¹ is to absorb gold. The

¹ Page 111.

government, under such circumstances, receives the gold in payment of duties, and as no one wants it to pay debts that can be legally paid in depreciated paper, the gold tends to accumulate. The result must be a tendency to enhance the price of gold, or, what amounts to the same thing, further to depreciate paper. This tendency, of course, reacts on prices, and introduces an element of uncertainty into business. But, in addition, such locking up of gold causes speculation in gold itself, varying its price more rapidly and largely than would probably otherwise be the case. The operations of the New York Gold Board furnish an illustration. With an excellent *raison d'être*, a legitimate field for its operations, it became at times a tool which, assisted by foolish legislation, exerted a baneful influence on the business of the country. All these considerations, in connection with the fact that of the four great wars in which the country has engaged, beginning with the Revolution, in only one, and that the least important financially, have we been able to do without the aid of banks and bankers, demonstrate the inadequacy of the "independent" system of financiering for war purposes.

CHAPTER VI.¹THE INFLUENCE OF THE INDEPENDENT
TREASURY ON BUSINESS.

THE most important phase of the operation of the Independent Treasury is its influence on the business of the country in ordinary times.

In the investigation of this part of the subject it is both desirable and necessary to confine our attention to recent years. It is desirable, because, with the exception of about a decade following its establishment, the last ten or twelve years are the only ones in which the Sub-Treasury system has operated in a way that may be called normal; that is, under conditions which have not interfered with the working of its machinery. It is necessary, because the industrial and commercial character of the present period of normal activity of the Independent Treasury is essentially different from that of its former period; and also because the Sub-Treasury as it exists to-day is a very different institution from what it was forty years ago.

For many years after the adoption of the system, the annual receipts and expenditures of the government were approximately equal. At least there was no large surplus to deal with, such as for many years past has been one of the most prominent features of our national financiering.

¹ The main part of this chapter was published in the *Annals of the American Academy*, for September, 1892.

This is an important consideration. For the influence exerted, on the amount of the circulating medium for example, by a government which keeps its own money, must be very different, under a policy of surplus financing, from what would prevail under other conditions. Moreover, for another considerable number of years, the country was under a *régime* of paper money, issued under circumstances that constituted a practical reversal of the policy of complete "divorce of bank and state" which was the central doctrine of the Independent Treasury when first established; so that the Treasury is not now "independent" even to the extent of keeping all its own money. Again, whatever influence such a system would have must have been largely increased, if not changed in character, by the growth of the fiscal operations of the government, by the industrial and commercial development of the country, and especially by the tremendous growth of credit which the last generation has witnessed.

When the system was established the receipts of the government were about one million dollars a week. So unimportant was the influence of the government operations for some years after 1846, that, in the words of Professor Sumner,¹ "the bankers and merchants could afford to laugh at the insignificance of the government on their arena."

Now the Treasury "is the largest manipulator of money in the country." Commerce has multiplied many times, and there is a greater solidarity of business interests, due to improved means of communication, and a correspondingly greater sensitiveness.

Moreover, as already said, the functions of the Independent Treasury have themselves changed, both in extent

¹ "History of American Currency," p. 167.

and nature. "The duties of the sub-treasuries," said Treasurer Jordan in 1886, "have changed since the passage of the laws authorizing the issue of the various kinds of certificates of exchange, and redemption of the silver coinage and paper currency of the country. Each sub-treasury is now a bank of issue and redemption. Whether such functions should be performed by these offices is a grave question."¹

In addition to its intended duties of receiving and disbursing government money, the Independent Treasury now discharges the following functions also: First, it issues notes, like a bank, and it protects these notes by keeping a reserve whose ratio to the notes issued approximates that usually kept by the banks; second, it receives deposits, and issues therefor certificates, which pass from hand to hand as money, and it keeps a deposit from which to cash the checks of disbursing officers; third, the issue of government paper necessitates the duty of redemption by the Treasury as by banks, redemption, that is, in the sense of the exchange of one kind of money for another; and it also acts as agent of the national banks for the redemption of their notes; fourth, the Independent Treasury transfers money for individuals from one part of the country to another, free of charge or at less cost than can be done, for example, by the banks; and, finally, it has by the law of July, 1890, been charged with what is essentially the work of a silver bullion broker. These powers of the Independent Treasury must be borne in mind in seeking to determine the nature and extent of its influence on the business of the country to-day.

¹ Treasurer Jordan, on proposed sub-treasury at Louisville. Senate Committee Report, No. 1834, vol. ii., second session, 49th Congress.

It may seem, at first thought, that this influence might be directly traced; that prices and the rate of interest might be shown to vary with the absorptions and disbursements of money by the Treasury, and that thus there might be shown to exist between business and the fiscal machinery a connection so close as to amount to a demonstration of the influence of the latter. Unfortunately, however, this cannot be done; for large amounts of money may be withdrawn from circulation without any apparent effect on the rate of interest, or on business. This is possible, because under our currency system the volume of money which constantly remains in our channels of industry is nearly a maximum; that is, the amount which is needed and used when business is most active. This, again, occurs because our currency is inelastic; its contractions and expansions are not to any great extent in response to the needs of business; it is not self-adjusting. Hence, when business is dull there is a large inactive volume of money which may be withdrawn without affecting the business situation. Accordingly, we find that the amount of money in the vaults of the Treasury increases sometimes when prices are rising, and sometimes when they are falling; on some occasions when the rate of interest tends upwards, and on others when it tends downwards; in some instances when business is brisk, and in some when it is dull; at times when gold is being exported, and at times when it is being imported. In fact, these phenomena occur in all possible combinations.

Still another reason why prices do not show response to changes in the amount of money caused by Treasury withdrawals and disbursements is found in the widely extended use of credit. Credit instruments of one sort

and another perform a very large, perhaps the larger, part of our exchanges. Prices will, therefore, depend more on variations in the amount of credit than of the money in circulation.

Moreover, the elements that enter into the determination of prices are so numerous, so variable, and sometimes so obscure, that we cannot eliminate those which are not material to the problem of finding the causes of variation at a given time. The effect of any one of these numerous elements may in one case be much greater than in another, and yet it may not so appear because the other elements have also varied in the mean time. Direct proof of the effect of the Sub-Treasury on prices is, therefore, impossible. The same is true of variations in the rate of interest. So far as they are caused by the Independent Treasury, they are due to the changes affected by it in the amount of loanable capital. But usually no direct connection can be positively shown, because variations in the amount of loanable capital are not the only cause of variations in the rate of interest. Loanable capital may diminish while the rate of interest falls,¹ the effect of the diminution of capital being more than offset by other causes, which, however, are undetermined, and cannot, therefore, be eliminated. The relations between prices, rate of interest, loanable capital, and the operations of the Treasury, are, in fact, exactly such as could be represented by a combination of forces acting at a single point. We may, by observation, determine the amount and direction of the resultant, but that will tell us nothing of the individual forces. To see whither each tends, we must imagine it acting alone, and infer the

¹ Cf. E. B. Andrews's "An Honest Dollar," Publications of the American Economic Association, vol. iv., no. 6, p. 8.

results of its single action. This is one of the cases which occur so often in social and economic investigations, whose limitations prevent a satisfactory application of the inductive method, and make it necessary to rely largely on deduction. We must begin by assuming, what all admit, that prices and the rate of interest depend partly on the amount of loanable capital, as represented by the amount of money offered in the money market, and partly also on the extent of the use of credit. We must, then, first examine the phenomena of the Sub-Treasury considered by themselves, and afterwards consider how its influence is modified by other forces.

The influence of the Treasury on business is exerted mainly through its action, direct or indirect, on the purchasing medium of the country. If we disregard the small number of transactions which take place by direct barter, we may look on the purchasing medium of the country as a compound of credit, including instruments of credit, and money. It may be fairly assumed that at any given moment this compound purchasing medium, or the "money power," of the country is a definite quantity, the amount needed to perform the exchanges that take place. It may vary, owing to a change in the amount of money, or of credit, or of both. Any external cause varying the total purchasing medium, by changing either the volume of credit or the amount of money in circulation, will tend to act on prices. The amount of the compound purchasing medium required for transacting business being definite at any selected time, if the volume of credit remain constant, a sudden diminution of the amount of money in a market will tend to lower prices, or at least to prevent their rise. An increase in the amount of money would have the opposite effect. After each variation in the

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amount of money, prices would tend to settle to a new level determined by the new volume of the compound purchasing medium.

But because the volume of credit is, as a matter of fact, expansible or contractible, part of the effect of a variation of the quantity of the money element of the compound purchasing medium would be to augment or to diminish the volume of the credit element. For the more money there is in circulation at a given moment the less need there is of credit operations; and the less money, the greater need. This is true, of course, on the supposition that the total compound purchasing medium is exactly what is needed to do the business of the country at the given time. And this supposition is a legitimate one, so long, at least, as the country is on a specie basis.

If, then, we suppose, as we fairly may, that the rapidity of circulation remains the same for a brief period, any cause varying the amount of money in a country affects business by acting on prices directly, through the change in the quantity of money; or indirectly, through its influence in inducing a change in the volume of credit. Prices would be affected even if we suppose, what in practice could hardly be realized, that the expansion in the volume of credit equalled the diminution in that of money, for the effect of credit on prices depends in part on its extent.

Now, the action of the Independent Treasury is such as to vary the amount of money in circulation. At one time it absorbs, at another disburses, considerable sums. There is nothing in the nature of the Sub-Treasury that makes its receipts and payments necessarily concomitant with a free and a stringent condition of the "money market," respectively. Its action is, in the main, independent of

either condition. That it must have a tendency to influence prices, depending on the extent of its absorption, retention, and disbursement of money is, therefore, clear.

For reasons already pointed out, it is difficult to show directly the connection between the action of the Sub-Treasury and variations in prices. The difficulty is still further enhanced by the fact that the withdrawal of money from circulation must continue some time before the contraction is shown in market quotations. But the evils of contraction are felt long before they become manifest in prices.

The table on pages 128 and 129 shows the net weekly receipts and disbursements of the sub-treasury at New York from September, 1890, through June, 1891.¹

In the ten months here represented there was a continual variation in the amount of money in the channels of business, due to the ordinary operations of the sub-treasury at New York. It poured out over thirty-four millions of dollars, net, in September; withdrew nearly eight millions in the following two months; let out over six millions in December, and in the last four months of the period made a net addition to the money afloat, by its ordinary operations, of nearly twenty-six millions of dollars. The changes are shown graphically in the diagram opposite. All points below the line represent net loss, and all above it net gain, for the sub-treasury. Each square running horizontally represents two weeks, and vertically one million dollars.

¹ The figures were kindly furnished me by Mr. Maurice Muhleman, cashier of the New York sub-treasury.

1890.	RECEIPTS ¹	DISBURSE- MENTS	NET GAIN	NET LOSS	BALANCE OF GAIN	BALANCE OF LOSS
Sept. 5	14.1	14.3	—	.2	—	—
" 12	16.8	19.6	—	2.8	—	—
" 19	19.5	42.7	—	23.1	—	—
" 26	17.1	25.6	—	8.5	—	—
	67.5	102.2	—	34.6	—	34.6
Oct. 3	17.7	16.6	1.1	—	—	—
" 10	18.3	15.8	2.5	—	—	—
" 17	14.8	14.0	.7	—	—	—
" 24	13.9	12.5	1.4	—	—	—
" 31	15.9	14.8	1.2	—	—	—
	80.6	73.7	6.9	—	6.9	—
Nov. 7	12.3	11.1	1.2	—	—	—
" 14	13.7	14.6	—	.9	—	—
" 21	14.6	14.5	.1	—	—	—
" 28	11.0	10.6	.4	—	—	—
	51.6	50.8	1.7	.9	.8	—
Dec. 5	16.6	13.0	3.6	—	—	—
" 12	13.5	22.5	—	9.0	—	—
" 19	14.2	15.8	—	1.6	—	—
" 26	12.7	13.8	—	1.1	—	—
" 31	9.2	7.2	2.0	—	—	—
1891.	66.2	72.3	5.6	11.7	—	6.1
Jan. 2	11.1	8.9	2.2	—	—	—
" 9	14.2	15.5	—	1.3	—	—
" 16	15.0	17.2	—	2.1	—	—
" 23	17.5	17.7	—	.2	—	—
" 30	17.1	12.4	4.8	—	—	—
	74.9	71.7	6.9	3.6	3.3	—
Feb. 6	13.6	13.0	.6	—	—	—
" 13	16.9	13.4	3.5	—	—	—
" 20	13.3	9.1	4.1	—	—	—
" 27	12.1	9.5	2.6	—	—	—
	55.9	45.0	10.8	—	10.8	—
Mar. 6	13.3	12.4	.9	—	—	—
" 13	12.8	14.9	—	2.1	—	—
" 20	16.0	18.7	—	2.7	—	—
" 27	14.3	14.8	—	.5	—	—
	56.4	60.8	.9	5.3	—	4.425

1891.	RECEIPTS ¹	DISBURSE- MENTS	NET GAIN	NET LOSS	BALANCE OF GAIN	BALANCE OF LOSS
Apr. 3	14.6	15.0	—	.4	—	—
" 10	20.3	22.2	—	1.9	—	—
" 17	17.7	19.7	—	2.0	—	—
" 24	19.1	20.4	—	1.3	—	—
	71.7	77.3	—	5.6	—	5.6
May 1	17.7	17.5	.2	—	—	—
" 8	19.3	20.0	—	.7	—	—
" 15	23.2	23.8	—	.6	—	—
" 22	36.1	36.8	—	.7	—	—
" 29	22.3	23.4	—	1.1	—	—
	118.6	121.5	.2	3.1	—	2.9
June 5	26.6	27.7	—	1.1	—	—
" 12	18.7	21.7	—	3.1	—	—
" 19	19.6	25.5	—	5.9	—	—
" 26	17.7	20.6	—	2.8	—	—
	82.6	95.5	—	12.9	—	12.9

So great an irregularity as these figures show in the supply of money cannot but have a tendency to render prices also irregular. Of course the effect of the spasmodic variation is felt first in speculation. But the influence of speculation on prices makes itself felt all through business, if the variations are more than what may be called momentary. Every business man who has outstanding debts secured by bonds or stocks as collateral has to provide additional security if his bonds or stocks depreciate under the speculative influence. In order to do so he may have to reduce his capital, or curtail his expenses, or sell his goods at a loss; and the solidarity of business interests is such that the injury to one line of business will have a tendency to react unfavorably on others, and so affect a large part of the community or even of the country.

¹ The figures are in millions of dollars.

Of far greater importance, however, than the tendency to influence prices by varying the supply of money directly, is the action of the Independent Treasury system on business by means of its influence on credit through the medium of the bank reserves. It is not necessary to enlarge on the magnitude and importance of credit operations in the business world to-day. The extent of their use is marvellous. According to the report of the Comptroller of the Currency for 1889-90, it appears that of the receipts of 3,364 national banks on July 1, 1890, 7.50 per cent. was in coin and paper money, and 92.50 per cent. in checks, drafts, bills of exchange, and other instruments of credit. Corresponding figures for Sept. 17, 1890, for 3,474 national banks, are 8.96 per cent. in "cash," and 91.04 per cent. in "checks, drafts, and other substitutes for money." In New York City, the commercial centre of the country, on the last date given above, only .07 of one per cent. of the total transactions of forty-seven banks was in coin; 4.29 per cent. was in coin certificates, government and bank notes; and 95.64 per cent. was in checks, drafts, and other substitutes for money. Now, this extensive use of credit is perhaps the most marked and important characteristic of the business methods of our industrial era. Credit is the most important means of business expansion and of industrial growth. Its destruction would mean the ruin of industrial development, the decrease of means of living, the checking of population, the stagnation of social life; in short, the stoppage of progress and the throwing back of the world to a more primitive type of civilization. It is the very life of modern society. Any cause that injures it, weakens it, or temporarily suspends it, is an economic and social evil. But the basis of credit in the business

community is the money that makes up the bank reserves. "The whole case [of the influence of credit], it must be observed, rests on the *adequacy of the reserve*, and the reserve must be judged to be inadequate unless it be sufficient not only to meet every demand made upon it, but completely to eliminate all apprehensions on that point. Confidence in the adequacy of the reserve is the foundation of the vast superstructure of credit which is raised upon it, and confidence cannot be impaired without rudely shaking the sensitive fabric it supports."¹ The bank reserves are, as it were, the base of an industrial structure, each succeeding layer of which is larger than the one below it, so that the business organization may be represented as an inverted pyramid with a very small base.² Such a system is evidently in a condition of

¹ Address of Mr. Charles Gairdner, General Manager of the Union Bank of Scotland, before the Institute of Scotch Bankers, quoted in *Bradstreet's*, December, 1890.

² This is excellently illustrated by Mr. Edward Atkinson in an able paper, in *Bradstreet's*, Dec. 20, 1890, by means of the following diagram:—



A	Rectangle A represents the approximate estimate of all transactions in stocks, bonds, real estate, products and services,	\$130,000,000,000.
B	B represents that of all transactions on credit	117,000,000,000.
C	C " " " " dealings in products	50,000,000,000.
D	D " " " " annual production @ \$200 per head	12,500,000,000.
E	E " " " " the circulating medium in country, Dec. 2, 1890	1,500,000,000.
F	F represents that of the lawful money not in banks	1,000,000,000.
G	G " " " " " " in the banks	300,000,000.

Of course the absolute accuracy of the figures is unimportant if the ratios they bear to one another are correct; they refer to the United States.

unstable equilibrium. But the industrial pyramid has a certain self-adjusted proportion of the parts; so long as the variations in the base are induced by, and therefore correspond to, variations in the other mutually dependent parts of the structure, the relative stability is unchanged. In other words, so long as the bank reserve, which is the base of the pyramid, adjusts itself to the legitimate demands of the business community, so long is there equilibrium, or no disturbance. But the slightest disturbance of the base threatens the whole structure. Any diminution of the bank reserve, independent of a corresponding decrease of credit, or any check on its expansion when the needs of business require an enlargement of credit, interferes with operations in every department of business activity. In other words, so small, relatively, is the bank reserve, that a comparatively slight change in its amount will check the whole market. The banks in reserve cities are required by law to keep a minimum reserve of twenty-five per cent of their deposits in coin and United States notes. This, then, represents the danger line in fluctuations of the reserve. Even a mere approach to it creates anxiety and distress in business.

The amount of the reserve varies, of course, with the amount of the cash deposits, and also with the amount of discounts or loans. For a borrower at a bank seldom cares to withdraw the actual money. He borrows credit. The amount of the loan is credited to him on the books of the bank, and he draws on it as he needs it. No more money comes into the bank by this transaction; no money at all need pass from the bank to the borrower from the time of the contraction of the debt even to that of its liquidation. Yet the transaction is equivalent to an increase of deposits, and necessitates an increase of reserve. If the reserve

of the bank is already at the legal minimum, the bank must get more money; if it cannot do so, it must contract its loans, or at least refuse further discounts, thus checking the market. Money which is withdrawn from the banks must come out of the reserve, or cash actually on hand. But the money out of which the reserve must be maintained, and from which all actual withdrawals and cash loans must come, is the cash deposits. The "free" cash, that which the bank can pay out, is the difference between the cash deposits and the minimum, or legal, reserve. The amount against which the bank must maintain a minimum reserve, however, is composed of the cash deposits *plus credit deposits*, or loans left by borrowers in the bank. Evidently, therefore, the withdrawal of any sum of money from the bank must diminish the free cash and the reserve in a ratio larger than that which the amount withdrawn bears to the total deposit account. But if the amount withdrawn is kept in the current of business where the banks can get at it, they, of course, can strengthen their position again immediately, and possibly could always keep well away from the danger line of a minimum reserve. If, however, they cannot recover the money let out, every withdrawal brings them nearer to this line. Money withdrawn from the banks for export, or for the payment of customs dues, is thereby put out of the reach of the banks, for a time at least. In the former case a firm applies to the bank for gold certificates, exchanges them at a sub-treasury for gold, and ships the metal like any other commodity; only a turn in the tide of international exchange can restore it to the country and the banks. If the money is used to pay customs dues it goes into the vaults of the Sub-Treasury. It is here as much out of the reach of the banks as when it

is exported; for it will appear again only when the government has payments to make, or becomes a purchaser of its own bonds. If the payments of the government were sufficiently frequent, or if, better still, they had a resultant connection with the operations of the business community, no distress would be felt.

The following table shows the changes in the holdings of the New York Associated Banks for three months in 1890 due to the action of the Sub-Treasury and the interior movement of money, and also the changes in the total reserve.¹

WEEK ENDING	SUB-TREASURY ACTION	INTERIOR MOVEMENT	NET GAIN (X) OR LOSS (-)	VARIATION IN RESERVE
Sept. 5, 1890	X 1,600. ²	— 3,289.	— 1,689.	— 52.
“ 12, “	X 2,600.	— 3,310.	— 710.	— 3,193.
“ 19, “	X 13,700.	— 4,411.	X 9,289.	X 6,895.
“ 26, “	X 18,500.	— 3,933.	X 14,567.	X 16,384.
Oct. 3, “	X 4,500.	— 5,781.	— 1,281.	X 1,020.
“ 10, “	— 2,100.	— 4,752.	— 6,852.	— 9,924.
“ 17, “	— 2,500.	— 3,468.	— 5,968.	— 4,311.
“ 24, “	— 2,300.	— 2,038.	— 4,338.	— 964.
“ 31, “	— 700.	— 2,290.	— 2,990.	X 207.
Nov. 7, “	— 900.	— 533.	— 1,433.	— 4,254.
“ 14, “	X 200.	X 1,129.	X 1,329.	X 292.
“ 21, “	X 700.	— 1,190.	— 490.	— 300.
“ 28, “	X 300.	— 514.	— 214.	484.

It is evident from the figures that there is no causal connection between supplies of money from the Sub-Treasury and the demand from the interior points of the country, so that the drain on the banks by the interior movement may or may not be relieved by supplies of money from the Treasury. Sometimes the two move-

¹ The table is compiled from the weekly returns of the *Commercial and Financial Chronicle*. The X sign means gain to the banks, and the — sign loss.

² 000 omitted throughout.

ments are in the same direction, either towards or away from the banks, and so intensify each other; and sometimes they partially neutralize each other. Through the month of October the demand for money from the interior continued active, but the banks were hindered in supplying it by the steady absorptions of the Treasury. Through September the demand was more than offset by the Sub-Treasury disbursements, but not steadily. In November the government payments partly offset and partly increased the drain on the banks caused by the interior demand. It would be rash to say that if the Sub-Treasury had not existed the banks would have met the demands for money more easily. Under ordinary circumstances, certainly under ordinarily good management, they should be able to anticipate the regular autumn draft. But in a period of stringency like that which existed in the fall of 1890, the case might be different. If there had been no Sub-Treasury, and the banks had had the money held there, they would of course have loaned it, and some of it, without doubt, would have been difficult to call in when the pinch came. The Sub-Treasury interposed a barrier to free lending, and held the money for a time of greater need.

The diminution of the bank reserves by the Sub-Treasury diminishes the money basis of credit and thereby at times makes credit more difficult to obtain; but at the same time the withdrawal of money from circulation necessitates a larger resort to credit in the attempt to prevent the reduction of business transacted. That is, since one part of the compound purchasing medium is diminished, the other must enlarge to maintain the same volume of business. Thus the tendency of the action of the Sub-Treasury is to diminish one basis of business activity—

the money available for loans — and so to compel a resort to the other basis — credit; while at the same time, and by the same action, it reduces the opportunities for getting credit. The result is a check on business expansion, perhaps an actual reduction of business activity.

It has been said that if the government would pay its debts so as to avoid having a surplus on hand the evil effects of the Independent Treasury in alternately contracting and expanding the currency would not occur. This statement can hardly hold; it overlooks the characteristic feature of the system, namely, its irregularity of action. The receipts of the government flow into its vaults in a continuous stream, while payments are periodic. It receives money every day, but the bulk of its payments is made every three months. It must gather *beforehand* a sufficient amount to meet its payments. That means that for three months money is being withdrawn from circulation, and that at the end of the quarter it is thrown back into circulation and into the banks all, or nearly all, at once. In this *irregularity*¹ of action on

¹ As long ago as 1882, the Secretary of the Treasury, Mr. C. J. Folger, emphasized this point, in his report for that year. He emphasizes too strongly, perhaps, the power of "cliques" in the money market; but these certainly have been at times powerful for evil, and their power has been increased, if not at times made possible, by the influence of the Independent Treasury on the currency. Secretary Folger wrote: —

"From the inequality between daily large receipts and comparatively small daily disbursements there comes an evil effect upon the business of the country. The collections by the government are taken out of the money market in sums and at dates which have little or no agreement with the natural movement of money, and are returned to it with the same inadaptation to commercial or financial requirements. Occasionally the large disbursements of the government have created a plethora of money; more frequently its large and continued withdrawals of money have caused such a scarcity of floating capital as to check the proper movement of legitimate business. It is not only that the amount in the Treasury is so much kept from the use of [the] commu-

the money market lies the harm of the system. If it be said that the payments made by the government at the end of every three months amount to a small sum compared with the total circulating medium, and therefore cannot have any important effect on business, the argument is conclusively answered by the evidence of experience. In the first place, it cannot be admitted that the disbursements of the government are so insignificant as the statement seems to assume. In one month they may be small; in another, large. If we observe the gains and losses of money by the sub-treasury at New York, for six months in 1890, we find that the net disbursements varied from over thirty-four million dollars in September to less than four in November. The former sum is about one-third the usual reserve of the associated banks of New York City, and it is through them that the bulk of the payments is ultimately made. In the two weeks from the 12th to the 26th of September, 1890, the weeks which saw the heaviest government payments of the month, the cash holdings of the banks rose from 92.4 millions of dollars to 115.6 millions. This increase of twenty-three millions was in spite of the shipment of 8.3 millions to the interior. To assert that such additions to loanable funds will not materially affect business is to assume that, other things being equal, the rate of interest in the money market will not vary with

nity; the fact becomes an incentive and an aid to men who for their own ends conspire to keep from that use other large sums. . . . To-day there are men so rich that by conspiring together, they can at will put and hold hand on near as much money as government can lay hand to, save by the use of its credit. The power thus had is used from time to time. It results that sudden and violent contractions and expansions afflict the business community, and the government is an unwilling aider and abettor therein. It has come about that the Treasury Department is looked to as a great, if not a chief cause of recurring stringencies, and the Treasury is called to for relief."

the amount of money accessible to borrowers, and that the banks will voluntarily keep idle in their vaults more money than it is necessary for conservative banking. The result of such increase in the money accessible to business is a fall in the rate of interest on short loans, and at least a tendency to a local inflation in prices. Mr. Edward Atkinson asserts¹ that the removal of but ten per cent., or thirty million dollars of lawful money, from bank reserves checked three billion dollars' worth of business transactions. Even if not prepared to admit the accuracy of this ratio, and although it is true that a given amount of contraction will disturb business much less at one time than at another, we must still admit that under some circumstances the effects of so large a contraction would be very injurious.

In the summer months when business is dull, a large amount of money may, as we shall see, be accumulated in the Treasury, with no ill results, because it is not needed then. "Contraction of the currency" is a healthy occurrence when business is dull; and in the absence, under our banking system, of a sufficiently self-regulating or "elastic" currency, the action of the Independent Treasury then, arbitrary though it be, is a good thing.

But even the smaller output of four or five millions of dollars may have an important influence on the market, especially if the bank reserves are very near the legal minimum; for contraction then, though apparently insignificant in amount, "may produce a most violent reaction in prices, disturbance in settlements, and disorder in almost every part of the societary movement." The following graphic description of some of the effects of a

¹ *Bradstreet's*, Dec. 1890.

sudden contraction will illustrate the importance of government action in a sensitive condition of the money market:—

“Early in 1881 the business of the city of New York was disturbed by the passage of an act of Congress which alarmed the banking institutions. It matters not to the present purpose whether their alarm was reasonable or not; the point here to be considered is that it did in fact result in a speedy deposit of several millions of legal tenders with the Treasurer of the United States, in order to provide for the retirement of national bank circulation, and thus to secure the immediate surrender of the government bonds deposited as security. Orders for such deposits of legal tender came by telegraph and mail from banks in all parts of the country to their correspondents in New York. These orders required that the money thus to be deposited should be taken from the sums standing to the credit of the country banks on the books of the banks in New York, and forwarded with as little delay as possible to the Treasurer of the United States.

“It afterwards appeared that the amount of legal tenders thus deposited reached about seventeen million dollars within one week. This was a sudden, but not very large, contraction of the currency. The amount actually in use at the time, including all kinds of money, was not far from one billion one hundred million dollars, so that about one and one-half per cent. of the entire circulation was withdrawn at the chief centre of commerce. What was the effect? Immediately the banks which had been called upon to deposit money for the surrender of circulation took the required amount from their reserves. But at once, being required to make good those reserves, they sent out notices demanding the payment of loans on call.

The persons thus called upon unexpectedly to pay sums which they had invested in securities rushed first to other banks and to brokers, seeking to effect new loans. As the cause was one which influenced at the same time the action of most of the leading banks of the city, a contraction of loans had been rendered necessary with nearly all the banks, and the apprehension of financial disaster had also led others to call in loans, as a precautionary measure, and had rendered all less disposed to put out more money on stock collaterals. As a consequence, in every direction it was found that the supply of money available for the purchase and carrying of stocks had suddenly shrunk. The holders were forced to go into the market to sell. . . . Accordingly, the market suddenly became one in which all wanted to sell, but nobody wanted to buy. . . . The inevitable consequence was a violent reaction, and the decline in prices within about one week was such that the aggregate market value of securities handled in New York was reduced fully two hundred million dollars. [Of course, this was aided by the panicky fear of *future* evil.]

“On the other hand, an illustration of almost weekly occurrence, during several years when the government was rapidly reducing its indebtedness, will serve to show the effect of an inflation of the currency. On certain days each week, about twelve o’clock, messengers from many establishments in Wall Street were waiting at the Sub-Treasury. An official brought out and posted a written notice, announcing that the government would redeem on a certain date bonds amounting to ten million dollars. . . . Within five minutes orders began to pour into the exchange for the purchase of stocks. At the same time those who had stocks to sell were warned by

their messengers to hold them at high prices. A sudden upward rush in prices occurred.”¹

In addition to the bad influence of the irregularity of the working of the Independent Treasury, harm arises also from the system in connection with the policy of surplus financiering. By that policy a large amount of money collected in excess of the expenses of the government is in effect withdrawn permanently from circulation. If the government has a surplus every month, a part of it, at least, must be continuously in the possession of the government. The effect is the same as if so much money were withdrawn from circulation permanently. The result must be that the country accommodates itself to this new monetary basis by a temporary fall of prices, unless the circulating medium is increasing under the influence of additional coinage with sufficient rapidity to prevent the fall.

Secretary Fairchild, writing of the surplus,² says: “The government provides, at large annual cost . . . that there may be a sufficient circulating medium in the hands of our people. . . . If we take into the Treasury large amounts of these circulating media in excess of what we pay out, there will soon not be money enough in the hands of the people for the purposes of business; serious derangement and disaster must follow, and a portion of labor must cease until the very evils which this wrong condition creates shall have worked a temporary cure by so diminishing the consumption of food, clothing, fuel, and luxuries by the taxation of which the revenues of the government are raised, that taxes do not exceed the ex-

¹ “American Securities,” Wm. M. Grosvenor. New York, 1885. pp. 216-220.

² Report, 1887.

penditures of government.” Such a change in consumption as Secretary Fairchild describes would happen only in an extreme case; but it is the state of affairs which the Independent Treasury and the surplus together *tend* to bring about. To be sure, having a surplus is not an essential evil of the Independent Treasury system. The continual holding of a surplus by the government is a policy, not a system. But if a surplus were by some means kept in circulation, subject to the call of the government, the evils of hoarding, at least, would be avoided. It is because it makes hoarding in the government vaults possible that the Sub-Treasury system adds to the evils of surplus financiering.

The operations which have been described are those which would result under a system of government financial independence, with disbursements made at considerable intervals, and with no reference to the condition of the money market or the demands of business. Such in principle is the Independent Treasury system of the United States. But the existence of the public debt and the almost constant possession of a surplus revenue have, under wise management by the various Secretaries of the Treasury, made it possible to prevent the occurrence of very serious disturbances from the influence of the system. If this influence had been unchecked, there is no reason to think that the results would have been less evil than the opponents of the system prophesied at its inception. But there have been forces at work that have lessened the evils. The policy of the country in other lines, although these have been followed without any reference to the Independent Treasury, has been such as to prevent the system from bearing what would be its legitimate fruits if unchecked. The times of largest receipts from customs

and of largest payments of interest and pensions, the currency, the silver purchases, and the tariff, have all modified the working of the system of fiscal independence to a greater or less extent. It has happened that some of these influences have prevented or lessened any evils that the Sub-Treasury might have caused.

In the first place, the tariff and the Independent Treasury have a certain connection. The receipts from customs are prohibited by law from being deposited in the banks. When, therefore, imports which are subject to taxation are heavy, considerable money is locked up. This, of course, if continued for a considerable period, and if disbursements did not increase, would diminish the means of paying duties, and might strongly affect the money market and disarrange credit. According to Professor Taussig, the tariff act of 1857 had in view the connection between the tariff and the Sub-Treasury. He says: "The tariff was passed with some hope that it would serve to prevent the [impending] crisis. Money was accumulating in the Treasury; and it was hoped that by reducing duties the revenue would be diminished, money would be got out of the Treasury, and the stringency, which was already threatening, prevented."¹

The reduction of the tariff has often been recommended as a means for preventing the withdrawal of money from circulation. It is evident from our examination of the subject, however, that the relief which would thus be afforded would come solely from the abolition of a surplus revenue. This would not do away with the irregularities of action of the Sub-Treasury, which constitute the really evil feature of the system. A surplus, if it were constant, and fixed in amount, could be allowed for in business

¹ "Tariff History of the United States," p. 118.

transactions. Its creation would cause a temporary contraction of the currency, but the currency and business would soon adjust themselves in harmony again, and business would not be further disturbed so long as the surplus did not change. The existence of a *varying* surplus is most vicious. But the varying surplus is due to a varying revenue, and this in turn to the varying needs of the government and the turns of business. The reduction of the tariff so as to abolish the surplus, however desirable for other reasons, would not do away with the evils caused by the Independent Treasury, because it would not make government receipts and expenditures any more regular.

The two institutions, tariff and Independent Treasury, are to a certain extent antagonistic, in so far, at least, as the tariff is for the purpose of raising revenue. For by locking up the customs receipts of one week, and thereby reducing the money within reach for further payments, the Sub-Treasury will tend to check an importation movement sooner than it would cease if left to itself, and if our currency varied with the needs of business. So far, however, as the tariff is intended to check importation — so far, that is, as it is purely protective — its purpose harmonizes with the action of the Independent Treasury.

The working of the tariff may affect the Treasury through the relation which the government holds to the currency. The Treasury must always have on hand enough gold to maintain payments in that metal; that is, to insure the redemption of the United States notes and the silver certificates. But if imports were largely to exceed exports for a considerable time there might be a drain on the gold in the Treasury that would make it necessary for the officers of the government to take measures to replenish its stock of gold. This would “press”

the banks and business, increase the scarcity of money, raise the rate of interest and check discounts, tend to depress prices, quicken exportation and check importation, and thus restore, on another level of prices, the equilibrium of demand and supply in business. The method taken to replenish the gold reserves of the government under such circumstances would depend partly on the existence or non-existence of a current surplus. In either case, of course, gold could be purchased. With a surplus, silver certificates might be allowed to accumulate in the Treasury, as was done in 1885.¹ This would soon cause the receipts of the government to show a larger proportion of gold, and so restore its reserve. If there were no surplus the Treasury would have to buy gold. Whichever policy were adopted, the time at which to pursue and to relinquish it would be for the Secretary of the Treasury to determine. His duty in such a case would have a certain likeness to the action of the Directors of the Bank of England in raising the rate of discount to check the export of gold. The object of both is to prevent the export of gold from going so far as to endanger the safety of their loans. Such interference in this country is very rare, and together with the exaction of a premium on gold bars for exportation in 1890, is the only means taken to prevent undue loss of gold.

The hardships caused by contraction of the currency by the Sub-Treasury at a period of heavy importation would be mitigated somewhat by the bonded warehouse system, whereby goods may be kept in bond and the duty paid at a later time. This system gives the money market time to prepare for the demands to be made on it.

It is needless, of course, to point out that the evils of

¹ See Taussig's "Silver Situation in the U. S." *Public. of the Amer. Econ. Assoc.*, vol. vii. no. 1, pp. 31, ff.

contraction caused by the absorbing action of the Sub-Treasury, at a period of heavy importation, are followed in due course by the evils of expansion. These latter are likely to be less felt, however, than the former. For the contraction takes place when money is in demand. If the expansion take place at such a time it eases the market; if at a time when business is dull, the money simply enters the volume of inelastic currency which lies inert in the channels of trade.

It has already been several times observed that there is, strictly speaking, no causal connection between the workings of the financial machinery of the government and the demand of business for money. Yet, strangely enough, the ill effects of the receipts and payments of the government, in alternately contracting and enlarging the amount of money available for business purposes, have been modified, and to a certain extent diminished, by our peculiar currency system. Bad as that system is in some respects, it must be credited with some good in this direction. The chief defect of our monetary system is its inelasticity. The supply of money in the channels of trade is that which is needed when business is brisk and the demand for money is active and healthy. But there is not what might be called an automatic method of contraction whereby the amount of money in circulation quickly and easily becomes less when business becomes dull for short periods. Our circulating medium is composed of gold and silver coins and certificates, United States notes, and national bank notes. The United States notes, or greenbacks, are by law fixed in amount; the silver, through its paper representatives, is, also by law, continually increasing; the gold would ordinarily diminish only by export for investment or for the settlement of

international balances, and is not, therefore, contractible on the occasions under consideration; and the national bank notes grow less only by the slow and unimportant means of redemption at Washington as they wear out.¹ There is, then, abundant provision for currency expansion, but none for currency contraction. The only means whereby this process can take place is through the absorption and locking up of money by the government. But this mode is of course, as already shown, purely arbitrary. Still, it sometimes happens that the government locks up money at a time when there is a plethora in the market. The process cannot then do much, if any, injury; in fact, it may be a source of relief to the banks. The monetary reservoir, so to speak, suffers less from loss through the arbitrary government withdrawals, because it is always kept at or near a maximum fulness. This inelasticity of the currency implies a social loss, by keeping afloat at times a larger amount of money than is necessary; but, on the other hand, it lessens the severity of contraction by the Treasury.

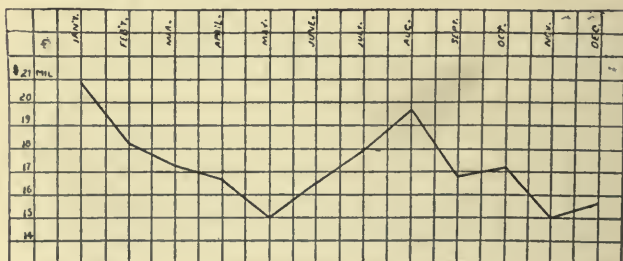
The times of the year when money is least needed, and when it accumulates in the vaults of the banks, are, approximately, in January, the summer months, and towards the end of October and the beginning of November. The plethora of currency in the summer is due: (1) to the semi-legal-tender character conferred on national bank notes by the law, which compels every bank to receive the notes of every other bank at par. The consequence of this is that the notes of the country banks are not sent home in the summer; (2) to that provision of the law whereby deposits in reserve cities count as reserve both

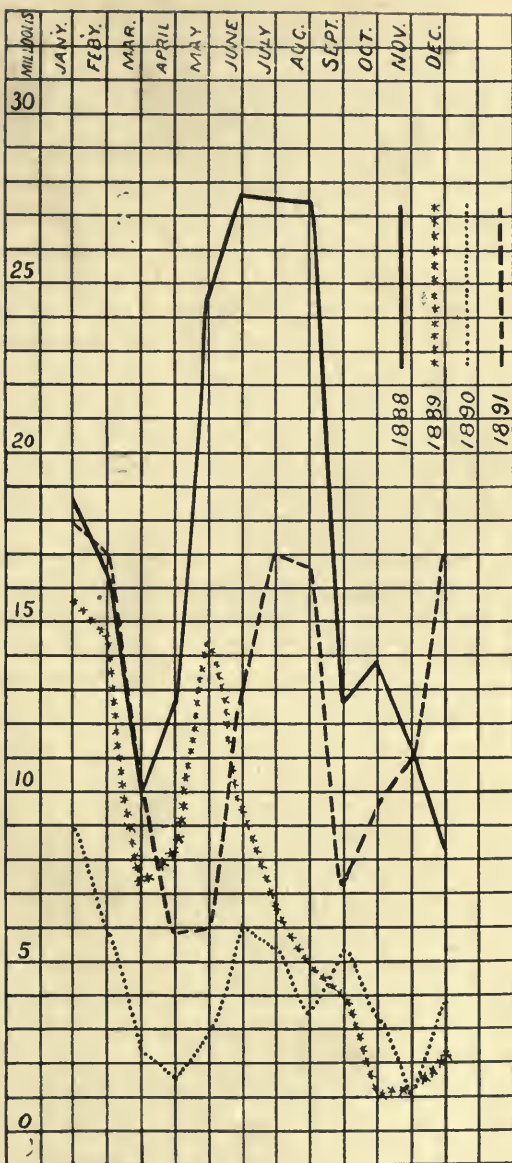
¹ Of course the final retirement of the national bank notes is not a phase of the elasticity of the currency here intended.

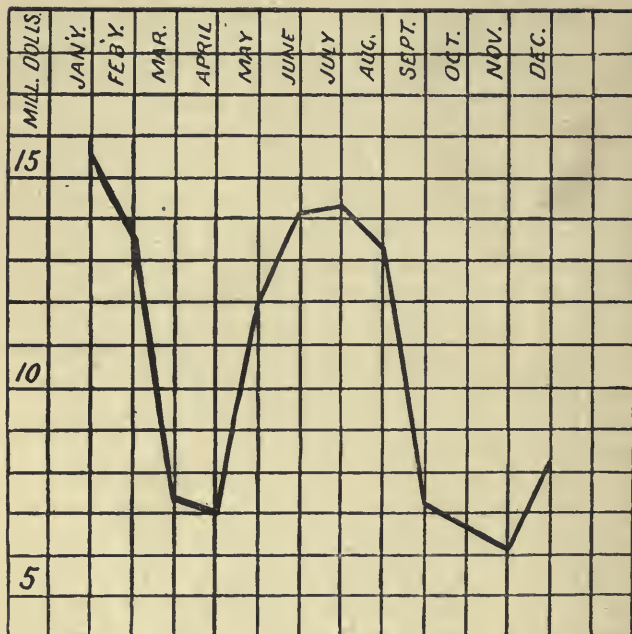
for the reserve bank and for the country banks making the deposits; (3) to the payment of interest by the banks on deposits subject to call. The diagrams pp. 149 and 150 show the course of the reserves more clearly. The figures from which the curves are drawn are given in number iv. of the Appendix. The first cut represents the monthly movement of the surplus reserve of the New York Associated banks for the years 1888, 1889, 1890, 1891; the second shows the course of the *average* monthly surplus reserve of these banks for the four years named. It is computed by adding the figures for each month for the four years and dividing by 4.

No one is benefited by the seasons of extreme ease; for as money accumulates in New York only because it is not wanted in the interior, the producing and mercantile classes outside of New York get no benefit from the low rates of discount which the accumulations produce. But when a stringency occurs, on the other hand, it generally affects all. The injury of the stringencies is not compensated by the ease of the money market at the times of great accumulation.

The following diagram shows the average course of the monthly receipts from customs for the years 1888, 1889, and 1891. The year 1890 is left out of account as being somewhat anomalous.







The customs receipts rise, as the chart shows, from May until September. This means, of course, that during the intervening months the government is locking up money and contracting the currency. This action must at times have proved a relief to the banks, especially in New York City, by withdrawing a part of the money which would otherwise have lain idle in their vaults. But, on the other hand, it must have tended to render the banks less able to meet the usual fall demand for money to "move the crops." Indeed, in some years, as 1888 and 1889, "the crop movement and fall business

have depended wholly upon the elasticity government disbursements have given the currency. . . . There was a time when the Treasury accumulated the idle currency in the summer months and disbursed it in the fall.”¹ Hence it has been necessary at many times to rely on the Treasury to supply the whole, or the greater part, of the money needed to keep up the bank reserves when they were being drained by the interior demand in the fall. But for the Independent Treasury the autumnal drain would all have fallen on the banks, and they were usually not very well prepared to meet it. There seems, however, no good reason for thinking that, as has sometimes been said, the banks carelessly depleted their reserves by discounting too freely in the summer months, and that they were therefore unable to meet the drain in the fall. If there had been no way except ordinary payments for the Treasury to let out again the money it had absorbed, evidently distress would have been caused. But two channels were open for the outflow: in the first place, the Treasury could purchase bonds, and this was the usual policy in the autumn for some years; in the second place, the accumulations of the government could again be put within the reach of business by depositing them in the banks. This policy has been followed, as we have already seen, to a greater or less extent, according to the views of the different Secretaries of the Treasury. But as the premium on United States bonds has risen, it has not been profitable for the banks to buy them for deposit as security for government money committed to their care. Moreover, as the only public money that can legally be deposited in banks is that derived from

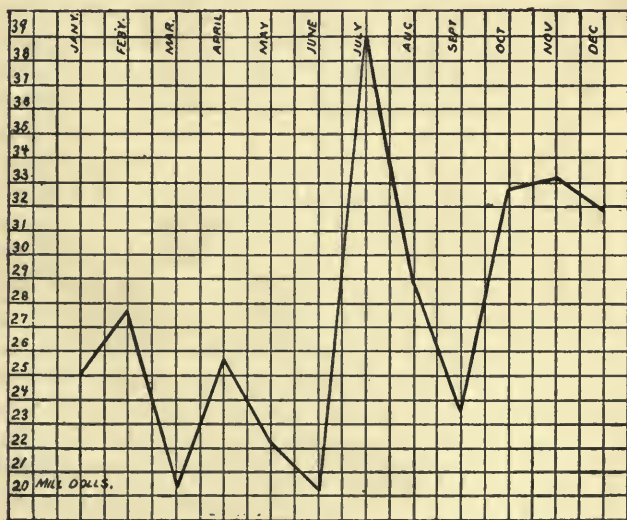
¹ N. Y. *Commercial and Financial Chronicle*, February, 1890. See Appendix, p. vi.

internal revenue, it is possible that, in some cases, the receipts would come in so slowly that the banks would lose from having to deposit bonds to a sufficient amount in advance.

Still another preventive of stringency in the fall has been found in the timely occurrence of the heavy government payments for pensions and interest. Disbursements for these purposes often swelled at times when they could do great good. The pensions and the interest on the four and one-half per cent. bonds of 1891 were payable in March, June, September, and December, and were a source of monetary relief that could be depended on. The interest on the four per cents was paid in January, April, July, and October. So far as the influence of these payments was concerned, that of October would continue the relief afforded by the September payments. Now that the four and one-half per cent. bonds have been paid, there will be no further relief from these interest payments in September. But since the redemption of these bonds it has happened that the financial condition of the government has changed. The receipts from customs have fallen off owing to the high rates of the McKinley tariff law, and the expenditures have largely increased, thus reducing the surplus and making income and outgo more nearly equal. The equalization of payments and receipts in the course of a year will not, however, as we have seen, prevent the financial operations of the government from exerting an influence on the money market. For it is still necessary for the Treasury to accumulate in advance a sufficient amount of money to make payments of interest and pensions quarterly. The irregularities of its operations due to the public debt will not, indeed, be so great as hitherto, yet they may

be sufficient to cause occasional disturbance. The only interest payments of importance are those on the four per cent. bonds, due in January, April, July, and October of each year. The January payments come at a time when the demand for money is slackened, and so money accumulates for a time in the banks, as is shown by the increase in their reserves. The April disbursements coincide usually with the demand for money for the spring trade, and are thus a positive help to the market. The outpour of July falls on a lethargic market and goes to swell bank reserves already usually larger than the banks desire at that season of the year. The October payment, as we have already noted, is timely in meeting the usual "fall demand."¹

¹ The average course of government disbursements for the four years, 1888, 1889, 1890, 1891, is shown in the diagram herewith:—



The disbursements for pensions increased some eighteen millions of dollars for the fiscal year 1891, and will increase rapidly for some years to come. This increase will work to keep up the irregular influence of government financial operations in the money market, yet possibly to a less extent than hitherto. For a new policy in the payment of pensions has recently been adopted. Payment of pensions is made quarterly from each pension agency, as heretofore, but not from all the agencies at the same time. Payment is made from some agency every month. The consequence is that payments of pensions are distributed more equably through the year, and therefore they will doubtless cause less disturbance in the future.

In its connection with the currency the Independent Treasury is the source of another danger. It is due partly to the existence of the Sub-Treasury system that the country has been forced into its present silver policy. The sentiment which brought about the effort of the government to "maintain" silver could not have been so successful but for the fact that the Treasury is the keeper and disbursing officer of its own money. If, for example, the transactions of the government had been conducted through a national bank, as formerly, public opinion would never have permitted so long a period of irredeemable paper or a forced issue of depreciated silver. For the gain from them, whether real or imaginary, would have been, at least partly, secured by the bank. But the issue of notes by the government, and the forced issues of silver, receive a certain support in popular opinion because the profits accrue to the government. It would have been possible, under a system that used banks as the issuing agents of the government, to secure most of this advantage while avoid-

ing the incidental evils which the course pursued has produced. It is not meant, of course, that the policy actually pursued with reference to paper and silver would have been impossible under a national bank; but it would have been much less likely to be suggested or supported. So long as the government maintains a "bank" of its own, so long will its stockholders, the people, or a certain section of them, insist on doing for profit a banking business on the lines which, followed too far, inevitably bring disaster.

Under the Independent Treasury system the government must itself maintain the gold standard. But it can do so only if its receipts are in gold to a sufficient degree. Professor Taussig shows¹ that it was saved from forced silver payments in 1885 only because the surplus revenue enabled it to accumulate gold. Now that the surplus is wiped out, this source of safety for the money standard is weakened, and the difficulty of maintaining the standard will increase.

In another way still, the surplus has prevented the Independent Treasury from exerting the full effect which it would otherwise have had. While the surplus is to a certain extent chargeable with intensifying the contractions which the operation of the Treasury at times tends to produce, it has also afforded a means of relief when the acute stage of the demand for money has come. Without the public debt and without a surplus to redeem it, the Treasury could never have afforded the help in stringencies which it has so often given. But this very cure of the evils of contraction may be, to a certain extent, its cause. A surplus can exist only because money is taken

¹ "The Silver Situation." Public. of the Amer. Econ. Assoc., vol. vii., no. 1.

out of circulation and locked up for future use, a process which means contraction. The evil effects of the surplus policy in contracting the currency are in some degree counteracted by the arbitrary enlargement of the circulating medium from the monthly additions of silver, and from other new coinage. When disbursements come, however, inflation is rendered still greater by these additions.

If the currency of the country were wholly created by commerce for its own needs, adapted entirely to those needs, and possessing the elasticity which such a currency would have, the action of the Independent Treasury would be more clearly seen. In that case it would correspond more exactly with the absorptions and disbursements, diminutions and swellings, of the money in circulation, for short periods of time. The new coinage made in response to commercial demand, and the export and import of gold and silver, would still have to be allowed for; but the alternate issue and redemption of bank notes, under such a currency system as we suppose, would respond quicky to the variation in the demand caused by the Sub-Treasury, and so would reflect its action much more clearly.

In the few years just before the war, when the currency was more elastic, the action of the Sub-Treasury on the money in circulation must have been much more close and direct. At that time, however, the financial operations of the government were, comparatively, so small that the amount of its alternate subtractions from, and addition to, the money afloat could not have done much harm; and since the war, as has been shown, its influence has been largely modified by causes many of which, though they would be called bad if considered by themselves, have, as it were, so considerably offset the evils of one

another as to produce a condition on the whole not very vicious.

Other causes which prevent the variations of the amount of money in the channels of commerce from corresponding with those of the government cash holdings, and have modified the influence of the Sub-Treasury, are the monthly injection of silver, the changes in the national bank circulation, and the exportation or importation of gold; and even when allowance has been made for all these, the effects of new coinage and of hoarding would cloud the working of the system. The combined action of the silver issues, and the movement of the national bank notes, sometimes diminishes very much the contraction which government receipts would otherwise cause. For example, during October, 1890, the gain by the Sub-Treasury amounted to \$5,154,374. But not this amount was lost to commerce during that time. For during the month silver certificates were issued to the amount of \$5,880,000, and national bank notes were retired to the amount of \$2,114,142. The net gain in currency afloat from these last two movements was \$3,765,858, which, deducted from the Sub-Treasury withdrawals, leaves the net loss of money afloat \$1,388,516. If the changes in the currency were responsive to the demands of commerce, as they would be under a monetary system purely commercial instead of partly political, as ours is, the demand of business for money would still have been unsupplied,¹ by just the amount of the Sub-Treasury withdrawals; under our system the occasions when money demand and money supply are not in equilibrium are likely to be much more numerous. At the time mentioned the demand for money was active because imports were rising

¹ On the basis of existing prices, of course.

to anticipate the operation of the McKinley tariff, and it is altogether likely that the whole increase of money during the month was needed, and would have been used, had the Sub-Treasury not put it out of reach.

On the contrary, it is clear that under other conditions — when, for instance the demand for money is slack — the issue of silver to an amount greater than the national bank notes retired is not needed, and the Treasury absorption relieves the plethora of currency. But whichever way the changes may work, there is no necessary connection between the money demand, the money supply, and the action of the Sub-Treasury; that action is therefore just as likely to injure as to help the market for the time being.

The Independent Treasury also enhances the difficulty of the management of the public debt. The Secretary of the Treasury must proceed carefully so as to prevent the withdrawal of too much money for the accumulations from which to pay interest and to purchase bonds for the sinking fund. He must make his withdrawals and disbursements as equable as possible.

The Independent Treasury, in connection with a surplus revenue, is responsible for the policy of forced debt payment. When the surplus grows large the Secretary of the Treasury is compelled to get rid of some of it by purchasing bonds, even though he must pay large premiums to do so. In 1889, for example, the Secretary received and disbursed nearly half a million dollars a day, and so had to find and buy one or two millions of bonds a week, in order not to withdraw a dangerous amount of currency from commerce. A possible result of such purchases is to raise the price of the bonds so that it will not pay the national banks to deposit them as security for

circulation; and the consequence would be a retirement of bank notes and a contraction of the currency, or, at least, a prevention of its expansion in a time of need.

The great cause of mischief in the Sub-Treasury system, as has already been emphasized, is in the fact that while the receipts of the government are daily, its payments occur only at intervals. If these intervals could be shortened sufficiently, the harm done might be made to disappear; if, for instance, the Treasury could pay its bills weekly, or even monthly, its influence on the money market would be far less. The chief items in the irregularity of the treasury action are pensions, interest, and purchases of bonds for the sinking fund. With regard to pensions, a step has recently been taken in the right direction by paying part of them each month; but the great increase in the pension roll will neutralize, at least in part, the benefit that the change would otherwise produce. The interest payments are still made quarterly, and money must be gathered for the purpose, and also for the purchase of bonds. As the debt grows less the influence of these payments on the money market will decrease. If Congress could be said to have a definite financial policy, so that the action of one session could be looked on as indicative of its future course, we might infer from recent legislation that the irregularities due to debt payment will be less than hitherto. For the late drift of events — the enlargement of appropriations and the reduction of income by the McKinley tariff — might then be regarded as foreshadowing a period of slow debt reduction. This would preserve somewhat longer our national banking system, and would enable the government, if so it chose, to make a larger use of these banks as depositories, and the slower payment of the

debt could be so adjusted as to cause less irregularity. But no such dependence can be put on Congressional action as to warrant an inference like this.

The causes which have modified the action of the Sub-Treasury have prevented the monthly variations in the net government holdings of cash from corresponding necessarily with the gain or loss of money to business from government operations. Hence, one set of changes cannot always be learned from the other. The difference between the two sets of changes is often increased by the fact that the disbursements reported as being made in one month may not appear until the following month. The checks issued for pensions, for example, are some time in returning through the banks to the Sub-Treasury for payment. Meantime the money against them remains still in the vaults of the Treasury. The effect of large reported disbursements or absorptions may not appear, therefore, for some little time after they are nominally made. For example, in March, 1889, the decrease in the Sub-Treasury holdings was \$3,575,519; the decrease in depository bank holdings was \$986,743; total, \$4,562,262. Yet according to the monthly statement, the receipts of the Treasury were \$31,014,000; and the disbursements, \$17,383,000. These figures make it appear that the Treasury *absorbed* \$9,139,000, whereas it actually had a *net loss* of \$4,562,262.¹

We see, then, that the evils which the Sub-Treasury might naturally be expected to produce have been largely neutralized by a series of lucky accidents, as it were; for it can hardly be claimed that the various parts of our financial system and policy have been framed with reference to one another so as to offset one another's ill effects

¹ See also page 89.

and produce a system good on the whole. Several parts of that system are bad, notably our currency and the Independent Treasury, in some of its influences. Yet they have to a certain extent corrected one another. We can hardly expect, however, that the balancing of these influences against one another can continue in the future, nor would it be desirable that it should. It would be unscientific and dangerous to rely on mere contingencies for the prevention of financial evils, if we can see the defects in our system and provide a remedy.

Irregularities of absorption and disbursement cannot be prevented. They occur with all governments. It is not practicable for the government to pay its bills with sufficient frequency to prevent the locking up of considerable sums for periods long enough to affect the market, especially when it is sensitive. This feature of temporary withdrawals of money is inherent in the "independent" system of government management of its own receipts, and renders impossible the prevention of the evils which arise from contractions and expansions of the currency that are independent of the state of trade. Some method of keeping the public money should therefore be sought which will do away with these evils.

CHAPTER VII.

THE RELATION OF THE INDEPENDENT TREASURY TO CRISES.

IT remains to trace the influence of the operation of the Independent Treasury under the unusual conditions of a monetary stringency or crisis. At such times, when the crisis becomes acute, the business community is accustomed to look to the Treasury for relief, and on several occasions this relief has been obtained. When credit has been strained to its utmost, and has been on the point of breaking down, when the money basis of the industrial pyramid has become too narrow and too weak to support the great fabric reared upon it, then the accumulated surplus of the government has been poured through the doors of the Sub-Treasury, and has saved business from a collapse. This is, of course, a real benefit, and it is pointed to as an advantage of the system.

The policy of government action in times of commercial distress is not new. Our people have long relied on Washington for aid in such difficulties, and especially since the "divorce of bank and state," which was proclaimed to be a necessary part of "government by the people." "It has been the uniform policy of the government, when possible, in all commercial crises from 1846 to the present time."¹

There are several ways in which the power of the gov-

¹ Secretary Windom : Report, 1890.

ernment has been, or may be, brought to bear in a crisis. A government whose fiscal operations are independent of banks may relieve a protracted stringency by requiring dues to it to be paid in coin. Under the influence of such a requirement specie will be drawn from hoards, or from abroad, and the government can then put the metal in circulation by means of its disbursements. At least a part of the specie so disbursed will be likely to remain in circulation. And even if it should not, its transitory circulation will accomplish some good.

Again, the government may exercise a restraining influence on the banks, retarding discounts and so checking speculation, by absorbing for a time more money than it disburses; it may cheapen domestic exchange by itself doing a transfer business at low rates or even gratuitously, thereby promoting the flow of money from places where it is abundant to places where it is scarce; it may supply money by anticipating payments of interest on its debt, by adapting other payments to the condition of the market, and by the purchase of bonds; it may deposit the public money in banks, and allow the banks to use the deposits as a basis for making loans; and, finally, it may offer to increase the supply of currency by converting interest-bearing bonds into non-interest-bearing treasury notes. This last method has never been used in this country, although something analogous to it was advocated in 1873.¹

When the country was laboring under a suspension of specie payments by the banks, under the administration of President Van Buren, there is no doubt that by the payment of its ordinary obligations in specie the government exerted an influence in putting in motion a small

¹ See Adams's "Public Debts," pp. 214, 215.

stream of the metals, which "gradually assumed larger dimensions," and furnished a measure of relief. The action of the government at this time was beneficial in two ways: it relieved the stress, and, by its method of doing this, promoted the restoration of specie payments.

To be sure, the Independent Treasury was not established at this time, yet it virtually existed; for on the occurrence of the suspension in 1837 only six banks maintained specie payments and so continued to be government depositories; and while the Secretary of the Treasury was unable to find banks in which he could legally deposit, he kept part of the public money on special deposit in Washington, while the rest was left in the hands of the collecting officers.¹

The panic of 1837 was hastened and intensified, in this country, by the great inflation of the currency which occurred under the influence of the "mushroom crop" of banks that sprang up immediately after the downfall of the United States Bank. The bank paper in circulation increased from eighty-two million dollars in January, 1835, to one hundred and eight million dollars in January, 1836, and to one hundred and twenty million dollars in the following December. Within the same period the per capita circulation grew from seven dollars to nearly ten dollars. The specie in the banks rose only two millions in the meantime, and that in circulation increased from eighteen to twenty-eight millions. Thus the currency was almost entirely bank paper; and when the bubble of speculation built on it burst, many of the notes became worthless, and most of them very much depreciated. So great was the burden of dishonest credit that resumption would have been exceedingly difficult for

¹ Finance Report, 1837.

the banks had they been unaided. But the government receipts and payments were by law required to be in specie, or in treasury notes equivalent to specie, and a steady stream of good money was thus kept in circulation, part of which was within reach of the banks, and undoubtedly made their task of resumption easier. The specie drawn out by the government demand must have come from hoards, or must have been imported, and so formed a clear addition to the metallic currency afloat. The government furnished a superior currency which competed with the bank notes and to a certain extent restrained them.

However, the conditions which prevailed at that time were such as need not now be contemplated. A general failure to redeem the bank notes of the country, so long as there is no suspension of specie payments by the government, is now impossible, certainly in a time of peace; and there are many reasons for doubting whether, under modern industrial and commercial conditions, suspension is necessary in a great and strong country like the United States, even in a time of war.

At the time we are considering, the banks could promote speculation both by over-issues of notes in "cash" loans, and by book-credit discounts.¹ It was with the "cash" loaned by the banks that the specie of the government came, so to speak, into competition for use, and so tended to restrain it. But an over-issue² of notes could

¹ That is, the banks made loans both in the form of credit on their books, and in the form of actual cash, so called. The latter consisted of the bank's own notes; and, in many cases, banks extended their loans of this kind to indefinite amounts, by issuing notes without regard to the amount of their reserves.

² The over-issue here meant is an issue unduly large in proportion to the reserve. The issues of the old State banks were "over"-issues, both in this

not occur under our existing currency system, because notes are not issued against deposits but against capital; and hence speculation cannot be promoted in that way. Even if it could, no competition between government currency and bank currency, on the score of the greater security of the former, could take place now, because the bank notes are virtually government notes; therefore the bank issues could not now be restrained by such a competition. So far as the banks foster speculation under the present law, they do it by book-credit discounts based on their deposits, and the Independent Treasury can check their operations only by absorbing the specie which would otherwise go into their reserves. Consequently, whenever, under present conditions, government disbursements of specie are a source of relief in crises, they are so, not because they bring specie into circulation to replace discredited paper, but simply because they put back into circulation what they have previously withdrawn, and so restore the volume of currency to a correspondence with the more active demand for money. The mode of relief which came in 1837 from the government insisting on receiving and disbursing only specie is, therefore, not possible now.

sense and in the sense that they were more than enough to meet the need for money for purposes of legitimate business. An over-issue in this latter sense would be possible even under a system of notes secured by government bonds. It could occur, for instance, if the amount of notes permitted to be issued were considerably more than the par value of the bonds, or if the amount of issue were equal to the par value of the bonds, and the bonds were greatly depreciated. In either case there would be a wide margin of notes practically unsecured, which, under favorable conditions therefor, might be forced into circulation. This would constitute an "over-issue," and would promote speculation. But the actual restrictions of our banking law preclude the occurrence of such conditions. Moreover, since the bank notes are redeemable by the government, and supported by the credit of the government, they are as good as government notes themselves, and would not suffer from competition with them.

The second mode in which the Independent Treasury may exert a beneficent influence in a crisis is, as has just been said, by exercising a restraining influence on the banks. The theory of this action is that by absorbing money the Treasury makes it harder for the banks to get, and that they, in consequence, do not discount so freely. Speculation, therefore, it is argued, is checked and the crisis is so far retarded. Of course any effect of this kind is produced only if the current receipts of the government exceed its expenditures; that is, if a surplus is accumulating. There is no doubt that under proper conditions the influence exerted by the Sub-Treasury in this way would be beneficial. If the government were absorbing money at a time when business was entering on a stage of speculation that was forcing up prices, evidently there would be two sources of drain on the money market; namely, that caused by speculative borrowers, and that caused by locking up money in the Treasury. The existence of the latter would prevent the former from going as far as it otherwise would do; for it would diminish the bank reserves, and so raise the rate of discount, and make borrowing more difficult. The result would be a diminution of loans to speculative buyers, which would cause them to lessen their demand for the commodities in which they were speculating, and so retard the inflation of prices. Some such influence was exerted in 1854. The bank circulation then was set at \$204,689,209, and the gold and silver in the country at \$241,000,000.¹ The tendency was for the bank paper to drive specie from circulation; but the requirements of the government for specie had a counteracting effect. The receipts of the Treasury amounted to over seventy-five million dollars, in coin,

¹ Finance Report, 1854, p. 15.

for the fiscal year 1854, and this had an influence that "kept up the demand for coin, and prevented the bank circulation from obtaining the mastery." When the Independent Treasury works so as to produce such results it is to be commended. This restraining influence on the banks is what Secretary Guthrie had in mind when, in his report for 1855-56, he wrote: "The Independent Treasury, when over-trading takes place, gradually fills its vaults, withdraws the deposits, and, pressing the banks, the merchants and the dealers, exercises that temperate and timely control, which seems to secure the fortunes of individuals, and preserve the general prosperity." While, however, we may readily admit that the action of the Independent Treasury sometimes produces such results, yet whether it actually does so in any given crisis is a question of fact to be proved; and that it might operate in an opposite way, intensifying the distress, and making the crisis more acute, is a possibility that must be recognized and its conditions defined. What these conditions are will appear when we examine the general effects of the sale of bonds for the relief of the market.

On the face of the matter it would seem that perhaps the simplest and most obvious way for the government to give relief in a crisis, is for the Treasury to deposit its money in the banks. This does not mean depositing in ordinary times when business is quiet; that is a matter which will be considered in another connection. The deposits here meant are deposits of surplus revenue for the express purpose of relieving the business community in a financial storm.

There are certain objections to such a mode of affording help to business when it is distressed. In the first place, the only deposits of considerable amount that can

be made in the banks, under the law, are receipts from internal revenue; it is not the practice to transfer money already in the Treasury or a Sub-Treasury for deposit in the banks. Consequently the deposits would come into the banks too slowly to be of much use in meeting a panic.

There is, however, a still more serious objection to the deposit of the public money in banks for the purpose of aiding an embarrassed market. Under our present usury law no bank which received such deposits could raise its rate of discount above the legal rate in the State in which the bank is located. The banks could not, therefore, unless by evasion of the law, apply the well-known rule to discount in the face of a panic freely, indeed, but at a rate of discount that rises, within certain limits, as the stress increases. Hence the limit of help which the banks could give with the public money deposited with them would be the relief of a strain whose intensity would be measured by that rate of discount, supposing the law were not evaded. The demand for loans at six or seven per cent., the usual legal limits, would be very large, and all the money to loan would soon be absorbed, a large part of it by those whose financial salvation did not depend on getting it; while others who were on the brink of ruin would be unable to borrow, even although they could and would have paid a higher rate of interest, had the law allowed, by outbidding those who were not really in dire need of the money. If, on the other hand, the banks charged higher rates, public opinion would not tolerate at all the free use of the public money by them. Furnishing relief to the money-market by depositing the public money in banks cannot, then, be very serviceable, under existing conditions.

The other methods mentioned as being at the command

of the Treasury for influencing the money market are rather methods of direct relief than methods of prevention, palliative rather than deterrent. They partake, indeed, of both characteristics; for aid in transfers, the "timing" of interest and other payments, and the purchase of bonds, may be utilized in anticipating commercial distress. Generally, however, they have been measures of relief when the storm was on.

By the timing of payments is meant simply that a certain latitude is observed in paying debts. There are generally some debts the payment of which can legitimately be hastened or deferred for a short period like a few weeks. The plan in practice has consisted in throwing the payments of one month into the month following. Thus in the latter part of November, 1889, the Secretary of the Treasury¹ issued a large number of transfer checks so late in the month that they could not well be returned for payment until December.² But December is a month in which money is usually in great demand, and the throwing of the November disbursements into December helped to keep the market more equable than it would have been otherwise.

When disbursements have been hastened by the Treasury for the purpose of assisting the money market they have generally taken the form of prepayments of interest on the public debt. Such prepayments have, at times, done some good, but for affording relief to any great extent they cannot be relied on. This plan "must always be a lame method for relieving the government of its surplus, unless the inducement offered is greater than now, as it interferes with the free sale of bonds."³

¹ Mr. C. S. Fairchild.

² See *New York Commercial and Financial Chronicle*, Jan. 5, 1890, p. 4.

³ *Commercial and Financial Chronicle*, Sept. 17, 1887.

It is unfortunate that the government should be compelled to resort to such paltry practices in consequence of defective financial machinery. The whole process of "timing" payments is too artificial to be commended. It ought not to be necessary. Government payments should be made when they are due. Anticipation and postponement are alike evil; the one is a wrong to the people, the other, to the public creditors. This remark, however, is of course applicable only to regular payments, not to the purchase of bonds for the sinking fund, which may be made at the fittest time.

The practice of transferring money for individuals and firms was originally adopted by the government, not for the purpose of providing a more even or proportionate distribution of currency, in order to aid the market, but simply as a measure for forcing silver into circulation. In 1880 the government offered to pay silver dollars or certificates free of charge at interior points where there was a sub-treasury or United States depository, in exchange for gold paid in at the sub-treasury in New York.¹ But the practice was evidently available as a means of distributing money to relieve a local stringency. Advantage would be taken of the offer of the government whenever the demand for money in the places to which free transfers could be made was at least great enough to cause exchange on these places to be at a premium at the points whence the money was to come.

The rationale of the system of currency transfers is found simply in the use by the government of its power to facilitate exchange, in order to transfer funds rapidly and at nominal cost from places where they are idle or

¹ See Taussig's "The Silver Situation" (Publications of American Economic Association, vol. vii. no. 1, 1892).

little needed to places where they are urgently needed. The system was developed in the financial distress of the winter of 1890-91, by the use of the telegraph to make the transfers of money. In addition to the relief afforded at that time by the actual transfer by telegraph of some three millions of dollars from San Francisco to New York, the situation was doubtless considerably eased by the knowledge that similar action would, if necessary, be taken at other points.

The method of government transfer has merit, especially for moments of special acuteness of strain in the money market, in those cases where a stringency, instead of being general in its severity, has a centre, or a few centres, of greatest intensity, as was doubtless the case in the winter of 1890. It was in New York City that distress was most severe, and where relief was consequently most needed. The effect, of course, is simply to relieve the strain by making the distribution of money more equable. But the very strength of the practice is also its source of weakness. Aside from the fact that it trenches on the legitimate business of the banks, it is objectionable also because the relief afforded at one place is afforded at the expense of other places; and its limit, of course, is reached in the transfer of such funds only as will not cause distress at the points whence the money is drawn. As soon as the legal reserves of the banks there are trenched on, or even threatened, the movement has attained the limit of its benefit. The San Francisco banks objected to the telegraphic transfers of 1890-91 on this very ground, that they depleted their reserves.

Moreover, on general principles, the system cannot be commended. For unless the amount of money transferred, free of charge, to the community suffering from a

stringency, were sufficient to supply all borrowers, there would be danger of intensifying the distress. The free transfer of money in such a case would demoralize exchange on the place where the stringency existed, and make the terms harder for borrowers. In short, the practice is a violation of the oft-quoted principle of good banking, that in a stringency, or crisis, or panic, money enough for all necessary purposes should be offered for loan, but on terms so hard that only those in real need will seek to borrow. Finally, if the financial strain were due to the locking up in the Sub-Treasury of money needed to restore the currency to its normal volume,¹ complete relief by the method of currency transfer would be impossible, because the transfers do not add to the volume of money afloat; and the furnishing of only partial relief, of help that stops short of the complete restoration of confidence, may react in a distress more acute than before.

The other mode of affording relief to a straitened market is by the purchase of bonds with money which has accumulated in the Treasury. Evidently if there is no surplus no relief can be furnished in this way. It is on the existence of the policy of surplus financiering, as much as on the existence of the Independent Treasury, that the efficacy of this mode of relief must depend. If that policy were abandoned, aid could be rendered in this way only from temporary surpluses that happened to accumulate in hard times, and the scope of this influence would be materially diminished. On the other hand, the policy of surplus financiering, if there were no Independent Treasury, would not by itself be a sufficient condition

¹ That is, the amount needed for the current volume of commercial transactions.

for relief from the government; for the existence of a surplus, if it were already deposited in the banks, would not make it possible for the Treasury to help the money market. It is the existence of a surplus in the vaults of the Independent Treasury that confers on the government the power of easing a panicky market.

As already said, the policy of giving relief in a stringency by the purchase of bonds is not new. In 1853 there was considerable fear that the accumulation of money in the Treasury would distress the market, and the Secretary of the Treasury was urged to expend the surplus which had accumulated. There was no panic, or even crisis, but only a stringency, or pressure for money. Credit was not disturbed. The stringency was intensified by a contraction of the currency due to the disappearance of silver from circulation. Silver went out of use on account of the fall in the value of gold caused by its discovery in California. This result was aided by the new coinage law, which undervalued gold. To counteract the effect of this contraction the Secretary deposited gold in the mint with which to purchase the silver. His own account of the transaction is as follows: "The daily payments at the treasury, in discharge of the public liabilities and the redemption of said loan,¹ did not equal the receipts. A large surplus accumulated in the treasury, and became a cause of alarm in commercial and financial circles. It was hoped that the accumulation in the treasury would exercise a beneficial restraint upon importations and speculative credit enterprises, and bring the business of the country into a safe and wholesome condition; yet, under the apprehension that a panic might arise from a too stringent operation of

¹ Of 1843.

the treasury, it was determined to make advances to the mint for the purchase of silver for the new coinage, and to enable the mint to pay promptly and in advance of coinage for gold bullion."¹ Some five million dollars were deposited in the mint to enable "the mint to give gold, which circulated as money, for silver that was out of circulation, because of the premium upon it; and for gold bullion that could not circulate as money until coined."²

The relief afforded by this means was not sufficient to make the money market easy, and the purchase of bonds was resorted to. An arrangement was made with brokers in New York and Philadelphia to purchase bonds at the market price to be paid for on presentation at the Treasury. Even this means failed to allay apprehension, because the surplus still accumulated, and the Secretary increased his offers. In a circular of July 30, 1853, he undertook to redeem before Dec. 1, five million dollars of the loans of 1847 and 1848, at a premium of twenty-one per cent. and interest from the 1st of July. On the 22d of August he enlarged his bid and offered to purchase two million dollars of the loans due in 1856 and 1862 at a premium of eight and one-half per cent. and of sixteen per cent., respectively. "The result," wrote the Secretary, "has been satisfactory." The purchase of bonds was continued through the year.

The following figures show the specie in the banks and sub-treasury at New York in the fall of 1853 to the nearest thousand:³—

¹ Finance Report, 1853.

² Finance Report, 1853.

³ The figures are from the *Bankers' Magazine*.

	BANK LOANS.	CIRCULA- TION.	DEPOSITS.	BANK SPECIE.	SPECIE IN SUB-TREAS.
Aug. 6	\$97,900	\$9,510	\$60,995	\$9,747	\$8,046
Sept. 3	91,741	9,554	57,503	11,268	9,079
Oct. 1	90,150	9,552	57,969	11,232	9,726
Nov. 12	82,882	9,288	56,201	12,824	6,147
Dec. 10	86,709	9,076	57,838	12,494	
Dec. 31	90,162	8,972	58,964	11,058	3,800

The coin in all the sub-treasuries and depositories at the end of the year was \$23,951,945. While, in spite of the efforts of the Secretary, the specie in the New York sub-treasury increased through August and September, yet it did so less rapidly than before, and the banks were benefited.

It would seem from the figures that the disbursements of the Sub-Treasury helped to increase the specie holdings of the banks in November and December, and enabled them to get into a somewhat stronger position towards the end of the year; but, coming when they did, they had little or no effect in curtailing market operations. They seem rather to have given speculation a somewhat freer play.

One effect of the purchase of bonds by the government, which we shall have occasion to consider later on, is thus recorded by the *Bankers' Magazine*:¹ "Owing partly to the notice of the Treasury Department the government six per cent. loans of 1867-68 have advanced from 120½ to 122, and the five per cents from 108½ to 109."

The next important instance of government relief to the market was in 1857. "The crisis of 1857 was an

¹ September, 1853.

unusually simple case of activity, speculation, over-banking, panic, and depression.”¹ The symptoms of the coming distress were seen early in the year, and to avert disaster, if possible, Secretary Cobb began the purchase of bonds, his purpose being, in his own words, to afford “relief to the commercial and other interests of the country, which were then struggling to ward off the revulsion which finally came upon them.”

In the summer months of 1857 the New York banks increased their loans at a rapid rate, the average for June, July, and August being over eight millions larger than the average for the same months in 1856. The banks followed this great expansion with a rapid contraction of loans, the decrease from Aug. 1 to Dec. 5 amounting to over thirty-four millions. In the mean time their specie more than doubled, and their notes in circulation decreased over two millions.

The following table shows the state of affairs for 1857, to the nearest thousand:²

	SPECIE IN N.Y. SUB-TREAS.	SPECIE IN N.Y. BANKS.	LOANS OF N.Y. BANKS.	CIRCULATION OF N.Y. BANKS.
Jan. 3	\$11,430	\$11,172	\$109,149	\$8,602
Feb. 7	13,618	11,144	112,877	8,426
Mar. 7	15,189	11,707	111,900	8,465
Apr. 11	15,175	10,884	115,374	8,787
May 2	14,408	12,100	114,409	9,006
June 6	12,431	13,135	115,338	8,838
July 3	10,317	12,837	115,044	8,901
Aug. 1	12,162	12,918	120,597	8,662
Sept. 5	11,678	10,228	112,221	8,673
Oct. 3	7,748	11,400	105,935	7,916
Nov. 7	5,408	16,492	95,866	6,434
Dec. 5	3,986	26,070	96,526	6,555

¹ Taussig: “History of the United States Tariff,” p. 118.

² The figures are from the *Bankers' Magazine*, April, 1857.

Between the 1st of August and the first week in December the banks gained a little more than thirteen millions of specie, while the Sub-Treasury lost about eight millions, half of which was paid out in the purchase of bonds. The net imports of gold at New York for the same time were \$1,745,000, which, with \$8,812,000, from California, made a net total of \$10,557,000. A large part of the increased strength of the banks thus appears to have come from the proceeds of the purchases of bonds by the government. The Secretary of the Treasury continued buying bonds as long as he could, and took the ground that it might be wise to spend the whole of the surplus in that way, so as to relieve the market, even if as a result expenses would have to be met later by new loans.

The influence of the Independent Treasury in this crisis was not all in one direction. During the years 1855, 1856, and 1857 the customs receipts were unusually large, and the accumulation in government vaults tended to increase. In March, 1857, the government held in the various branches of the Sub-Treasury over twenty-one millions of dollars.¹ "At New York the public funds are accumulating at a fearful rate, by means of custom-house duties, the latter being for the current fiscal year, thus far, at the rate of nine millions beyond the extravagant years 1855-56." There is no doubt that the strain in the monetary situation was increased by the accumulations of the government at this time. And in so far as these accumulations restrained the discounts which the banks made for purposes of speculation, their influence must have been to prevent the tide of speculation from rising as high as it otherwise would have done, or to bring on the inevitable crash sooner than it would have come of

¹ See *Bankers' Magazine*, March, 1857.

itself. Whatever influence of this nature the absorptions of the Sub-Treasury may have had at this time was partly counteracted, however, by the early purchase of bonds. The Secretary began to offer help too far in advance of a real crisis, and thus held out hope to speculators that they could rely on further aid. The accumulation of funds in the Sub-Treasury at a "fearful" rate was a good thing so long as the business which caused it was based on over-speculation, because the accumulation was constantly reducing the basis of that speculation. The accumulation should have been permitted to go on until the speculation lessened and the crisis was at hand. Discounting too far in advance of a panic will not be likely to prevent it, but rather to make it more certain by furnishing fuel, so to speak, on which speculation can feed further. So the too early disbursements from the Treasury may intensify rather than mitigate financial distress. At least, disbursements, if made too early, will fail to do as much good as they would if made later. This was the case with Secretary Cobb's early disbursements in 1857.

However, although the purchases of bonds then did not furnish as much relief as they would have done if they had been held back until later, yet they certainly accomplished much good. The specie paid out strengthened the banks, as the figures show, and made the task of resumption easier, and sooner possible; and if the banks had not weakened themselves so much it is possible that the government disbursements, especially if they had been delayed a little longer, would have saved them from suspension.

One wholly good result of the existence of the Independent Treasury at this time was the maintenance of specie payments by the government. Had the public

money been deposited in the banks, or had the receipt of bank-notes for public dues been lawful, the Treasury would have been as seriously embarrassed as at the beginning of the panic of 1837. Comparing the situation in 1857 with that in 1837, the Secretary of the Treasury wrote:¹ "The most remarkable feature distinguishing the two periods has reference to the effect upon the commercial and general business interest of the country produced by the present operations of the Independent Treasury. It is the relief which has been afforded to the money market by the disbursements in specie of the General Government. In 1837 the demand of the Government for its funds with which to meet its obligations weakened the banks, or crippled their resources, and added to the general panic and pressure. In 1857 the disbursements by the Government of its funds which it kept in its own vaults, supplied the banks with specie, strengthened their hands, and would thus have enabled them to afford relief when it was so much needed, if they had been in a condition to do it."

It is worth noticing incidentally that the appearance of the government on the market to buy bonds forced their prices up once more. Said the *Bankers' Magazine* of April, 1857: "In government bonds the rates are nominal, few being offered in the market, as the Secretary of the Treasury is preparing to pay a premium of 16 per cent. on the bonds due in 1867-68, with the accrued interest of three months, equivalent in all to 117½ per cent."

In the panic of 1873 we have to deal with conditions different from those which prevailed in 1837 or in 1857. The bank paper was as really inconvertible in 1873,

¹ Finance Report, 1857.

indeed, as it was in the other years mentioned, although it could be exchanged for government notes or greenbacks. For the government itself was on a "depreciated paper basis." It could not, therefore, promote resumption by its disbursements of specie and treasury notes, as it did in 1837 and 1857. At the height of the panic there lay in the vaults of the Treasury "\$50,000,000 of gold coin, which could lawfully have been paid out in exchange for government obligations without embarrassing the operations of the government; but as specie could not be employed to pay private debts without a sacrifice at once of about twelve per cent. — the amount of its premium in paper — it was not wanted."¹

The government was, however, able to lend from its stored-up surplus of the legal-tender currency in use at the time.

The panic of 1873, like that of 1857, was world-wide. In this country it was largely the result of the too rapid transmutation of circulating capital into fixed capital during the few years preceding. These years were an era of extensive railroad building, and the immediate cause of the crash in the money market was due to the fact that some of the largest of these enterprises did not realize profits quickly enough to pay the loans which had been advanced on them. Credit was shaken, in consequence, and panic resulted. The panic was not due, properly speaking, to a lack of money, but to a lack, or destruction, of credit.

The forerunner of the coming disaster was the severe money stringency which was felt in the fall of 1872, with the occurrence of which the unwise management of the Treasury doubtless had something to do. The monthly

¹ Upton's "Money in Politics," p. 139.

currency balance of the Treasury averaged fourteen and one-half millions in 1871, and twelve and a half in 1872. The Secretary lessened the money afloat by selling gold to a greater extent than he bought bonds; as the gold could not circulate the net result was a loss of currency to business. This course of action was the reverse of that followed by Secretary Cobb in 1857.¹ He bought silver, which did not circulate, with gold, which did circulate; Secretary Boutwell, on the other hand, sold non-current gold for current greenbacks. So far as this process did not occur in the autumn, the time at which the legitimate demand for money is most active, it was not very objectionable under the circumstances which prevailed at that time. For the years 1871, 1872, and 1873 were years of too great speculation, and the absorptions of the Treasury restricted the ability of the banks to loan, and so must have retarded speculation.

It seems reasonable to think that such was, in general, the effect of the operations of the Independent Treasury in those years.² But the management of the Treasury was not dictated by a conscious adherence to a policy of restriction of speculation. Consequently what little influence for good the Independent Treasury may have had in this way, in the three years under consideration, must be regarded as, in the main, accidental.

The current of speculation was too strong, however, to be stopped by any restrictive action of the Sub-Treasury. The stringency became severe in the fall of 1872, and the Secretary was again called on to relieve the pressure. In the first week of October he sold five million dollars of gold, and deposited the proceeds in designated banks;

¹ See p. 175.

² Cf. the *New York Independent*, Jan. 9, 1873. Monetary article.

then, without previous notice, he bought five million dollars worth of five-twenty bonds, so that ten million dollars of currency were, by the two transactions, made available for business. The bank reserves immediately rose, and the banks enlarged their discounts. Following are the figures ¹ for the New York banks:—

	Oct. 5.	Oct. 12.	Oct. 19.	Oct. 26.
Loans and discounts	\$269,810,300	\$268,298,300	\$270,557,600	\$274,925,000
Specie in banks	9,943,900	12,217,800	12,625,500	10,795,300
Legal tenders	41,915,700	45,759,400	52,586,400	52,342,100

Under the influence of these changes in the condition of the banks, call-loans, which on the 4th of October had ranged from six per cent. in currency to seven per cent. in gold, with commissions additional in some cases, fell to a range of from three or four to seven per cent., in currency, and the market for such loans became “easy,” with an average rate of from five to six per cent.

It is to be noted, however, as an important fact, that there was a great difference between the extent of the relief that came to stock-brokers and to commercial borrowers. The easy rates accommodated the brokers, but the best indorsed sixty-day commercial paper could hardly be discounted for less than ten per cent. “It thus appears,” said the *Financial Chronicle*,² “that the Treasury operations have thus far chiefly benefited the borrowers of Wall and Broad Streets more than the commercial community.” This fact would seem to show that credit was already shaken, and that, therefore, those who had money feared to put it where they could not instantly call it back at need. It would seem from this experience that

¹ From the *New York Commercial and Financial Chronicle*, Oct. 19, 1872, p. 519.

² Oct. 19, 1872, p. 517.

when a stringency or a panic is brought on primarily by a weakening of credit, and not primarily by a lack of money, that is, when the stringency is the result, and not the cause, of unsteadiness of credit, the disbursements of the government for purposes of relief afford more help to those engaged in speculation than to commercial enterprises properly so called. This fact limits very materially the justification of government disbursements for relieving the market under such circumstances.

Although, as we have seen, the Secretary of the Treasury had shaped his policy in aid of the money market early in October, he did not continue to do so for long. The bulk of the money deposited in some of the banks in October was withdrawn later on. During December, a month when money is in demand, the banks lost to the Sub-Treasury about three million five hundred thousand dollars despite the remonstrances of the mercantile community.¹ The result was that loans on government securities ran up to seven per cent. in gold, while borrowers on stock collateral were obliged to pay from one-sixteenth to one-quarter per cent. per day for their loans.²

It is clear that in 1872 the action of the Independent Treasury, as managed by Secretary Boutwell, favored speculation rather than legitimate business, by the ill-timed contractions and expansions which the Secretary caused, so that its influence must, on the whole, be set down as evil. The same thing is true, on the whole, of the year 1873; for the same injudicious course was followed. No definite, consistent, and continuous policy was adopted for guiding the relations of the Treasury to the business community.

¹ See the *Bankers' Magazine*, January, 1873, and the *New York Independent*, Jan. 2, 1873.

² *Ibid.*

The stringency of 1872 became the panic of 1873. The money market was in an unsettled condition most of the time through the first nine months of the year. The legal-tender averages of the banks were lower than in 1872. There was a stringency in April, discount rates ran up, and a slight panicky feeling prevailed, especially on the occurrence of the panics in Vienna and Berlin. Between May and August the banks, responding to the speculative demand for money, heedlessly expanded their loans some twenty millions. On the 17th of September the New York Warehouse and Security Company failed, and the business community was thrown into a state of feverish anxiety by the failure. Secretary Richardson took no steps to ease the situation. On the 18th the crash of credit came with the suspension of Jay Cooke and Company. Still the government took no action, though failure followed failure, until the 19th. Then it was determined to buy ten million dollars of five-twenty bonds at par in gold, on Saturday, the 20th, over the counter of the New York sub-treasury. Owing to defective clerical facilities only a little more than two and a half millions were purchased. Orders were then issued by Secretary Richardson to purchase five-twenty bonds as fast as offered in private sale, at the New York sub-treasury, at a price not higher than par in gold. On Monday, the 22d, over three million dollars were accordingly paid out in legal tenders for bonds, and over five and a half millions for legal-tender certificates. Next day three million dollars more were put out for bonds, and over a million for certificates. On Thursday, the 25th of September, the Treasury stopped buying, having paid out over twenty-four million dollars of currency for bonds and certificates. During the week, the Secretary

had bought twelve million dollars of bonds from the savings banks, and on the 29th he prepaid the November interest.

These measures were practically all the help which the Treasury rendered at this time; and while they were doubtless of some avail, they were utterly futile as a stay to the panic. None of the money disbursed went into the banks. They lost, during the week when the Treasury was buying bonds, eleven millions of greenbacks; their reserve ran down from thirty-eight millions on the 6th of September, to twelve millions on the 27th, and their deposits decreased some fifty millions.¹

The figures are: —

	LOANS.	SPECIE.	LEGAL TENDERS.	DEPOSITS.
Aug. 30.	\$288,883,000	\$23,095,200	\$44,729,300	\$220,390,300
Sept. 6.	288,374,200	20,767,000	38,679,900	212,772,700
“ 13.	284,536,200	20,442,300	36,717,200	207,317,500
“ 20.	278,421,700	18,844,600	34,307,900	198,040,100

The figures of the condition of the banks, for the ten weeks after Sept. 20 are not available because reports were not published during that time.

The success met by the government in its efforts to allay the panic is thus shown to have been very small. The Secretary of the Treasury himself evidently felt this, if we may judge from the modest account of his efforts given in his report. He tells us there that bonds were purchased for the sinking fund to the amount of about thirteen million dollars worth, “when it became evident that the amount offering for purchase was increasing to an extent beyond the power of the Treasury to accept, and the purchasing was closed. . . . The cur-

¹ See article in *Lippincott's Magazine*, December, 1873.

rency paid out of the Treasury for bonds did much to strengthen many savings banks, and to prevent a panic among their numerous depositors, who began to be alarmed; and had there developed an extended run upon those useful institutions, it would inevitably have caused widespread disaster and distress. It also fortified other banks, and checked the general alarm to some extent."

The futility of the efforts of the government to relieve the distress was shown in the rates of discount also. The rate on call loans went up from seven per cent. in gold, on the 18th of the month, to one and one half per cent. a day on the 20th, the day of the first government purchase of bonds; and two or three days later there was no quotable rate. These facts show that the provisions of the Treasury to mitigate the pressure did not inspire confidence, and so could not check the panic. For they prove that the money disbursed by the government was hoarded. Part of it went into the savings banks. "The savings institutions of New York and Brooklyn hold about thirteen millions of greenbacks," said the *Financial Chronicle*.¹ "Part of these notes have been drawn from our city banks, but a large amount were obtained from the Treasury last week in payment for United States bonds. These greenbacks are now lying idle in the vaults of the savings banks; and the question is, what ought to be done with them."

It is not to be denied that the aid rendered the savings banks was good and commendable. But this did not help the general situation. There was a time during the panic when it was, perhaps, advisable for the savings banks to increase their stock of greenbacks; but it was not absolutely necessary, because they could have pro-

¹ Oct. 4, 1873, p. 447.

tected themselves from a sudden run by taking advantage of the clause in their charters permitting them to require thirty days' notice of withdrawals. Moreover, the savings banks kept their greenbacks in their vaults after the danger to themselves had passed, and so prevented the use of them by the mercantile community. By this action the efforts of the government were so far nullified.

As for the reasons for the complete failure of the Secretary of the Treasury to accomplish his purpose of checking the panic, we must note, in the first place, that his steps were not taken early enough. The government did not move in the matter until the crash of credit occurred, and the market had passed from the stage of crisis to that of panic. The proper time for the purchase of bonds was before that point; the latest time at which it should have begun would have been in time to save Jay Cooke and Company, if that had been possible. That is, it seems that if the Secretary had sold his bonds on Wednesday instead of Saturday, much greater good might have been done; for if there was any time at which confidence could have been restored by "easier money," it was then. After the failure of Cooke and Company the current of suspicion and distrust was altogether too strong to be stopped by the limited aid which the government could give. Even after the government disbursements of the 20th were supplemented, on the 22d, by the use of ten million dollars of clearing-house certificates, the feeling of panic did not disappear, and it was thought necessary, two days later, to permit the use of ten million more certificates.

The measures of the Secretary of the Treasury were also insufficient for the situation at the time they were taken. Indeed, this was felt when the Secretary first

announced his intention of buying bonds. There was general disappointment at the narrow scope of his measures. It was felt that more liberal disbursements should have been provided for, and that the government should have stood ready to redeem not only the five-twenty bonds, but any issue of its stock. It was announced later, to be sure, that the Treasury would buy bonds indefinitely; but that could be only nominally true, because, as the event showed, the amount of money at the disposal of the Secretary was very limited.

It may, indeed, be questioned whether the action of the government at this time did not do more harm than good. The money which it spent went, as has been shown, into private hoards and into the savings banks, and so furnished no relief to the market in general. It was just as much out of the reach of the business community as it had been when it lay in the vaults of the Treasury. But the public relied on the government; they expected that its action would be a great help, and the general tone of affairs immediately after the failure of the measures of the government seems to show that the reaction of disappointment induced more distrust and added to the panic. Both in 1857 and 1873, then, the ability of the government to allay the panic was counteracted by the fact that the public knew just about how far the Secretary could go. He could offer only a limited relief, which had little moral effect.

The insufficiency of the Treasury provisions became evident on Saturday, the 20th, and the use of clearing-house certificates became necessary on the next Monday. It is at least questionable whether a resort to these would have been necessary so early had the events of the 20th not demonstrated the complete inability of the government to cope with the situation.

We have seen that money put out for bonds was hoarded either by the savings banks or by individuals. This fact implies that they did not get into the hands of those whose need for help was pressing. The reason for this lay in the fact that the government terms were not hard enough. The bonds were paid for in legal tenders, while they were redeemed at their par value in gold. The difference between the premium on the bonds and the premium on gold was less than two per cent., a loss altogether too small to prevent those who could have got on without the money from selling their bonds and hoarding the proceeds. This is the true meaning of the Secretary's remark that his disbursements aided many savings banks.

Finally, it is worthy of note that, in spite of all efforts, the panic of 1873 ran its course. It cannot properly be said to have been checked. The reason is obvious: what was needed was a re-establishment of confidence in the enterprises which had been the primary source of distrust; but no amount of money disbursed by the government could produce this result. When the bridge across which a man is walking with confidence breaks and precipitates him into a torrent below and so throws his mind into a state of panic, it is with great hesitation that he ventures to cross again, on a temporary plank, however sound it may seem. There seems reason to think that the panic of 1873 was of such a nature that government disbursements were not a remedy, but at best only a slight palliative. This aspect of the case will be discussed later on.

The next important crisis was that of the autumn of 1890. Various causes had been at work promoting speculation for some time before. In this country the pro-

spective action of the McKinley tariff had brought about a large increase of imports for speculative holding, and the payment of duties, immediate and prospective, threatened to lock up so great an amount of money as to cause a stringency. Moreover, there was much speculation based on the idea of inflation, which it was supposed would soon be produced by legislation concerning silver. These sanguine hopes were doomed to disappointment, however. "The Silver Bill was passed, and the Treasury let out enormous amounts of cash. But the effects were not as expected. The supplies of currency had only a temporary effect in easing money. Silver certificates¹ rose to 121 in August, but are now down to 103, notwithstanding the heavy government purchases in the interval. Stock exchange values, with great pertinacity, declined instead of advancing, till finally this week the crisis came. Thus once again has it been demonstrated that legislative edicts cannot arrest the tendency of natural laws, and that something more than a flood of currency is needed to secure permanent ease in the money market."² In this dubious state of the public mind the failure of the Barings in England occurred and for a time threatened to cause a panic. The excitement calmed down, however, under the prompt and efficient management of the failure by the Bank of England. But while a panic was averted the market continued very restricted, and business suffered from the evils of a crisis. So great was the stringency that "the banking and currency machinery of the country was strained to its utmost and worked very unsatisfactorily." The lack of elasticity in our currency system prevented the banks from affording the relief that could reasonably have been expected from them under a better

¹ For bar silver on deposit.

² New York *Commercial and Financial Chronicle*, Nov. 15, 1890.

system, so that, notwithstanding the unusually large disbursements of the government, they were compelled to resort to the use of clearing-house certificates in the settlement of their balances. The aid of the Secretary of the Treasury was, as usual, invoked, and he responded with the purchase of bonds. In fact, Secretary Windom had been buying bonds, so as to prevent a stringency in the fall, as early as July. Under circulars issued in that month the aggregate purchases of four per cent. and four and one-half per cent. bonds amounted to \$10,358,950. As this disbursement was "inadequate to meet existing conditions," a circular of Aug. 19 announced that four and one-half per cent. bonds would be redeemed, with interest, through May, 1891. On Aug. 21, twenty millions of these bonds were called for, on condition of the prepayment, after Sept. 1, 1890, of all interest on them to September, 1891. Twenty millions more were called for on Aug. 30; and on Sept. 6 the prepayment of interest to the following July was offered to holders of four per cents and (afterwards) of "currency sixes;" and, finally, on the 13th of September, some seventeen millions more of four per cents were redeemed. The transactions are tabulated thus:¹ —

	BONDS REDEEMED.	DISBURSEMENTS.
Under circular of July 19, 1890.	\$17,324,850	\$21,225,989.46
" " " Aug. 19, "	560,050	581,138.12
" " " " 21, "	20,060,700	20,964,868.42
" " " " 30, "	18,678,100	19,518,176.83
" " " Sept. 6, "	(Int. prepaid)	12,009,951.50
" " " " 13, "	17,071,150	21,617,673.77
	\$73,694,850	\$95,917,798.10

In addition to the heavy payments for bonds the Treasury made large disbursements for other purposes also,

¹ See Report of the Secretary of the Treasury for 1890.

during the month of September, and its net available balance was reduced, by the end of October, to a little over two million dollars, not including fractional currency and the national bank redemption fund. The tremendous amount of money reported as disbursed in the purchase of bonds was further increased by the ordinary quarterly payments in September, and especially by the very large disbursements for pensions.

It must be borne in mind, however, that not all the money reported as disbursed went into the channels of business immediately.¹ The net gain of currency to commerce, calculated from the monthly reports of the Treasury holdings of money, was, for August, \$7,479,615, and for September, \$57,887,849, allowing for the gain from silver bullion certificates, and for the decrease in national bank circulation.² The output of the Treasury in August

¹ See pp. 89, 160.

² The figures for September, according to the *Chronicle*, were as follows:—

Net holdings of the United States Treasury.	Sept. 1.	Oct. 1.
Gold coin and bullion	\$185,837,581	\$147,981,732
Silver coin and bullion	15,749,535	6,590,212
Treasury notes, Act 1890	2,233,100	962,500
Legal-tender notes	10,573,710	5,775,290
National bank notes	5,063,227	4,620,511
Fractional silver	22,077,629	20,768,255
Total cash in Sub-Treasury	<u>\$241,534,782</u>	<u>\$186,698,500</u>
Loss by Sub-Treasury and gain to commerce		\$54,836,282
Silver bullion certificates issued during the month	\$4,460,000	
National bank notes retired	<u>1,408,433</u>	
		<u>3,051,567</u>
Total net gain to commerce for the month		\$57,887,849

During the month over \$10,000,000 were *actually* disbursed for pensions at New York; \$24,664,350 of 4½ per cent. bonds, and \$17,625,600 of 4 per cents. were actually redeemed; \$4,524,190 were paid out in premiums on bonds purchased, and \$13,410,001 in interest payments; making a total of seventy millions of dollars.

and September was reflected in an enlargement of the New York bank reserves, as shown in the following table,¹ in the face, too, of a drain of money to the interior: —

	LOANS.	SPECIE.	LEGAL TENDERS.	DEPOSITS.
Aug. 9.	\$406,139,500	\$73,496,000	\$29,766,300	\$407,905,200
" 16.	402,163,900	70,843,200	28,378,100	399,508,100
" 23.	397,672,300	68,621,100	26,254,200	389,553,100
" 30.	392,546,400	69,595,600	26,155,100	385,149,500
Sept. 6.	394,978,100	70,216,700	25,482,000	388,399,300
" 13.	393,160,100	67,842,300	24,663,500	388,250,900
" 20.	392,631,600	76,417,200	22,983,700	389,982,800
" 27.	394,029,100	93,397,300	22,387,800	406,838,800

The rates on call loans ranged through August and September as follows:² —

AUG. 4.	AUG. 11.	AUG. 18.	AUG. 25.
8—4	25—8	16—6	12—2

SEPT. 6.	SEPT. 13.	SEPT. 20.	SEPT. 27.
3—12	3—6 + $\frac{1}{2}$ per cent. a day commission.	2—6 + $\frac{1}{4}$ commission.	2—6

The rate of discount on call loans fell after the Treasury disbursements, as seen from the table. The net result of the operations of the Treasury was a decided relief of the money market in September. There was, as yet, no serious disturbance of credit; the difficulty was to get enough money to meet the suddenly increased demand, and the government disbursements relieved the pressure.

But the help afforded had only a temporary effect. The stringency recurred in November; and its occurrence, this time, was marked by a failure of confidence and the

¹ The figures are from the New York *Financial Chronicle*.

² The *Bankers' Magazine*.

appearance of distrust due to the announcement of some important failures. The reserve of the New York banks began to run down about the middle of October, and continued to do so until the second week of December. The figures for November are:—

	LOANS.	SPECIE.	LEGAL TENDERS.	DEPOSITS.
Nov. 1.	\$399,791,900	\$77,671,700	\$22,101,400	\$396,284,500
" 8.	398,855,700	74,486,600	21,032,500	392,253,400
" 15.	393,277,900	73,995,400	21,816,000	386,574,800
" 22.	387,297,200	73,191,200	22,319,800	381,685,000
" 29.	384,548,100	71,658,500	23,368,400	378,578,200

The state of the money market for the same month is shown by the rates of discount:¹—

DISCOUNT ON	NOV. 3.	NOV. 10.	NOV. 17.	NOV. 24.
Commercial paper . .	7—8	7—8	7—8	8—9
Call loans	6—4	186—15	186—6	5—3

These figures show that the panic was in the stock market, and not in business enterprises proper.

So great was the stringency brought on by failure of confidence that the banks of New York, Philadelphia, and Boston issued clearing-house certificates, and there was a renewal of the call on the government for assistance. But the available surplus of the Treasury had been so heavily drawn on by previous disbursements that Secretary Windom was not able to do much. By a Treasury circular of Oct. 9, a standing offer was made to redeem any four and one-half per cent. bonds, offered at par, with interest to maturity. Nearly six million dollars'² worth were redeemed in October; but these bonds were not

¹ Figures from the *Bankers' Magazine*.

² \$5,846,150.

presented during the crisis in sufficient amount to prevent the accumulation of a surplus in the Treasury. Accordingly Secretary Windom issued a circular inviting proposals for the sale of five million dollars of four per cent bonds, redemption to be made daily beginning with Dec. 8. The worst of the crisis was over by this time, however, and the only influence of these disbursements was to facilitate settlements.

The verdict on the question of the success of the operations of the Treasury to relieve the market in 1890 must be that it was on the whole unsuccessful. The very heavy disbursements in September increased the bank reserves and accomplished considerable good, because the elements of distrust had not widely developed, and the stress of the situation was due simply to the inadequacy of the available supply of money to do a suddenly enlarged volume of business. But the bank reserves soon decreased again by the movement of currency to the interior. This movement, combined with the tendency to export gold under the prevailing high rates of foreign exchange, renewed anxiety in monetary circles. The ability of the government to furnish help was known to be small, and instability had been revealed in many establishments. All these things together produced distrust; and when failure of confidence in the market occurred, the efforts of the government proved of little avail.

The principal cause of the failure of the September disbursements to furnish more than temporary relief to the market was the heavy movement of money to the interior. There was a steady drain from that cause all through the last four months of the year, with the exception of one week. The loss to the banks from this drain

aggregated \$33,272,000, for September and October. The figures¹ in detail are:—

Sept. 5.	— \$3,289,000	Oct. 3.	— \$5,781,000
“ 12.	— 3,310,000	“ 10.	— 4,752,000
“ 19.	— 4,411,000	“ 17.	— 3,468,000
“ 26.	— 3,933,000	“ 24.	— 2,038,000
		“ 31.	— 2,290,000

The main cause of the failure to ease the market in the later stage of the crisis was hoarding, due to the distrust that developed, which, at this time as in 1873, prevented the money paid out of the Treasury from going into the banks where it would have been of service in easing the market. “A conspicuous feature in the monetary situation,” said the *Financial Chronicle*,² “is the unaccountable disappearance of the currency issues made during recent months. Taking September and October together the official figures of the Treasury Department, which are no doubt correct, show that the currency afloat in the country, that is in circulation, increased during these two months \$62,934,675 net, and yet our New York City banks held on Nov. 1 only \$99,773,100 of different kinds of currency, against a total of \$95,750,700 on Aug. 30.” The returns of the banks in the interior of the country showed that the money was not in their vaults, and we are forced to conclude, therefore, that it was hoarded.³ The inference is supported by the fact that in the first week of the new year the banks showed an

¹ From the *Financial Chronicle*. The minus sign indicates loss to the banks.

² November, 1892.

³ It is possible that the money was in slow circulation, in the hands of merchants who were increasing their stocks in anticipation of higher prices under the new tariff law; the effect on the money market would be the same. Cf. remarks on the tariff and Sub-Treasury, p. 144.

increase of reserve, although they lost money both to the interior and to the Sub-Treasury.¹

The conclusions to be drawn as to the influence of the operations of the Independent Treasury in crises, from the four periods of great business disturbance which we have briefly sketched, are various. We have seen the system producing a stringency at a time² when ease in the market was needed for legitimate business, and also at a time³ when speculation was rife and had its course retarded, if not checked, by the Sub-Treasury absorptions. We have seen that the output of money to relieve a distressed market may result in promoting speculation,⁴ or in yielding some needed help to business men,⁵ or either partly or altogether neutralized by hoarding⁶ at a time of lack of public confidence in the immediate future of business. This variety of action is a conclusive proof, if proof be needed, that there is not in the Independent Treasury system such an automatic connection, so to speak, with business, as to make the operation of the Sub-Treasury responsive to the sudden exigencies of the mercantile community in a way to act as a governor of its irregularities. So far as the experience we have examined discloses, the Independent Treasury has been useful in monetary stringencies and crises, if its absorptions have coincided with a rise of prices caused by speculation, because it then retards speculation; and when its disbursements have coincided with a demand for money for a legitimate temporary expansion of business its action has been useful. When it has disbursed

¹ The reserve increased from \$103,237,500 on Dec. 26, to \$105,234,900 on Jan. 3, a gain of almost two millions. The net loss of the banks to the Sub-Treasury for the week was \$100,000 and to the interior \$1,500,000.

² In 1857.

⁴ As in 1853.

⁶ As in 1873 and 1890.

³ As in 1857.

⁵ In 1853 and 1890.

during speculation, or absorbed during a healthy business expansion, it has done mischief. It has failed altogether when credit was destroyed, and has at times made the situation worse by promoting hoarding.

Of the various methods mentioned whereby the Independent Treasury has had, or may have, a calming influence on a troubled market, three are of importance at present: namely, the restraining influence on banks, which Secretary Guthrie claimed the system exercises on a rising market; the transfer of money; and the redemption of the public debt, including therein the purchase of bonds and the prepayment of interest.

Now, to begin with, all this is government interference¹ in the money market; and while the "*laissez-faire*" doctrine is no longer to be regarded as an imperative or invariable rule of action, yet in the absence of any other principle to replace this, government interference must justify itself in each new field it enters. There is no inherent objection to its action, but it must prove its usefulness. Experience, both in England and in this coun-

¹ Government interference is here discussed in its economic aspect only. Of course, the political argument may be adduced also, but it would be out of place in the text. The appearance of the Treasury as a regulator of the money market was doubtless never contemplated by the framers of the Constitution, or of the act establishing the financial department of the government. Still, it might come under the elastic cloak of "implied powers." Moreover, it is but reasonable, from a political standpoint, to deprecate the placing of so much power within reach of the party in office, through its appointed official, and also the delegation of so great a responsibility to one man. But such objections must find their force in the fact of maladministration rather than in its possibility; and it is one of the proudest records of American financial history that no Secretary of the Treasury has ever deviated from the path of strict integrity in the use of the tremendous power placed in his hands through the Independent Treasury. Such mistakes as have been made have been mistakes of judgment. Indeed, very few of the hundreds of officials who, under the system, have had charge of public moneys, have proved unfaithful, and the amount lost through their dishonesty has been small.

try, has shown that judicious action on the part of the government may do much to prevent a panic, and success in one instance is all that is logically necessary to establish a case for future "interference" *under similar conditions*; but this action, in order to be judicious, need not consist only in redeeming the public debt under pressure of the circumstances of a panic. Yet that is practically the only method open to us, under our policy of surplus financiering, with an Independent Treasury. Consequently, our method must *prove its superior* usefulness or be condemned.

Moreover, that there is danger in the formation of the habit of relying on the government for aid in times of monetary distress, cannot be denied. That this danger consists in the promotion of speculation or in the diminution of caution in the usual conduct of business, is not, indeed, proved by the experience either of England or of this country. Both governments have assisted the business community when in distress, but there is no evidence of any increase of unsoundness in business methods on that account.¹ The danger lies in the possibility that in a time of great distress the action of the government will be pushed by public clamor to the point where its continued action will be an injury to its own credit, and consequently, in the end, far more disastrous than its inaction would have been. That this danger is not merely fanciful is shown by the experience of 1873 and 1890. In the former year "great pressure was brought to bear upon the Treasury Department" to loan its notes on secured clearing-house certificates as collateral, or to use the money on hand in the purchase of exchange, or to issue notes on the deposit of gold in the Bank of England, or

¹ For some remarks on this subject see appendix, p. —

to pay "at once" the twenty million loan of 1858, or to deposit money at designated places to be used in the purchase of exchange on New York. There were even many persons "who insisted with great earnestness that it was the duty of the Executive to disregard any and all laws which stood in the way of affording the relief suggested by them."¹ In 1890 some people demanded the use of the one hundred million dollars of gold kept for redemption of the greenbacks. The character of that fund has been virtually changed from that of a special reserve, for the purpose for which it was accumulated, to that of an ordinary asset. It is not a very long step from this position to that in which the "reserve" may be used as an ordinary asset. If that step is ever taken, especially if it be in a time of panic, the distress will be enhanced by the depreciation of the credit of the government, especially as represented by its notes.

To be most effective the help of the government must in every case be timely, certain, and sufficient completely to remove the danger. But it is not always so. Notably in the panic of 1873 was the support of the public purse tardy, timid, and insufficient. The Secretary of the Treasury did not undertake to purchase bonds until the market had reached its breaking point, and the panicky feeling could not be checked, as fully at least as it might have been by earlier action.

The success of the effort of the government to relieve a panic depends, then, largely on the good judgment of the officers of the government. Whatever advantage there is in it can hardly be ascribed to the Independent Treasury system. That system is merely a condition precedent.

¹ See Finance Report for 1873. See also Upton's "Money in Politics," p. 140.

The advantage of the system in this respect cannot, therefore, be urged against any other mode of action for the purpose, the success of which depends on similar conditions. Moreover, it may fairly be questioned whether the failure, or the stopping short, of an attempt to anticipate or check a panic does not do more harm than could be done by complete inaction. The "feeling" of the money market is a very sensitive and mobile force, and it gathers strength as it acts and reacts from hopefulness to despondency. When it was discovered, for example, that Secretary Richardson's means were exhausted, in September, 1873, the reaction to panic was marked by a noticeable fall in the prices of stocks.

Still again, if the Independent Treasury were by its nature a suitable means of relief, it should be available in every crisis. To be so, its accumulations of money should have some dependence on the conditions which "make money dear." But this is not the case. Its action in accumulation is altogether independent of the monetary situation. It "presses" the banks; it is not pressed by them. Its vaults may not be full when its aid is most needed, as happened on the exhaustion of its funds in 1873 and 1890.

Another consideration that detracts from the possibility for good of the Independent Treasury in a crisis is the fact that, since the time, manner, and amount of its output depends on the judgment of one man, the Secretary of the Treasury, the money is very likely to be paid out on too easy terms. The purchase of bonds at the market rate, or the full prepayment of interest, makes the money too easy to get. Under such terms the Treasury would need an amount of money large enough to supply not only those who were in real need of it, and ready to make a

large sacrifice to obtain it, but also those who might want it, not for immediate use, but for hoarding. To obviate this difficulty the bonds should be purchased at a sufficiently large discount from the market value. But if, on the other hand, the Secretary of the Treasury makes the money hard to get, banks which need money and try to obtain it by selling public securities are put in a more difficult position, and their ability to aid in easing the stringency is curtailed. This last consideration is of great importance in view of the fact that the direct relief afforded by government disbursements is measured by the money paid out of the Treasury, whereas the same money deposited in the banks would enable them to discount to two or three times the amount, thus affording a larger measure of relief.

Another objection that might be urged is the loss to the people in the forced purchase of bonds at a high premium. Secretary Fairchild, in his report for 1888, writes: "Ninety-four millions of dollars of bonds have been secured under this circular, and a premium paid for the privilege of buying them of about \$18,000,000; . . . the saving in the total amount of interest which would have been paid had the bonds been allowed to run to maturity, is about \$27,000,000. Had taxation been reduced so as to leave this money with the people, and if it is worth in their business 6 per cent. per annum, the total value of the money to them during the term which these bonds had to run would be about \$83,000,000; thus, there is a resulting loss to the people of \$56,000,000 upon this transaction alone." This is not strictly accurate. It is impossible to state exactly the loss to the people on such a transaction; first, because it cannot be fairly assumed that the money left with the people would all

“fructify” at the rate of six per cent.; and, secondly, because the amount of money disbursed by the government in purchasing bonds is, it may be reasonably assumed, largely restored to the channels of business. The total social loss, then, is composed of two elements: that which arises from the non-employment of the money while it is in the government vaults, and that which is caused by the fact that, while the money is indeed returned to business by the government payments, it is likely to reach persons other than those from whom it was taken by taxation. Such a transfer will involve a social loss, especially if those to whom the money is paid do not employ it so productively as those from whom it was taken by taxation. One of Secretary Windom’s transactions in 1890 will serve as an illustration. Under the circular of Sept. 13 of that year, \$17,071,150 of four per cent. bonds were redeemed at a cost of \$21,617,673.77, which represents a premium of 26.6 per cent. The reduction of interest charge from the transaction was \$682,846 per annum. The bonds were due in 1907, and had, therefore about seventeen years to run. The amount of the premium paid was \$4,546,523.77. If the \$21,617,673 had been kept by the government, and put out at interest at four per cent., compounded annually, for seventeen years, and the amount of the interest, \$682,846, is paid every year from the proceeds, the amount which the government would have at the end of the seventeen years for the payment of the principal would be \$25,927,322. This would leave a surplus of \$8,856,172, the present value of which would be the loss to the government. That value is, of course, the premium actually paid.

But it is hardly fair to assume that the government would, or should, invest in this way. Another way to look at the matter is this: If the government waited until

the bonds were due, it would in the mean time pay \$682,846 each year as interest; and at the end of the seventeen years it would pay the par value of the bonds. But in the mean time it would have the use of \$682,846 for seventeen years, sixteen years, and so on, down to one year. The gain or loss will be the difference between the amount paid, and the present worth of a seventeen years' annuity of \$682,846, at four per cent., plus the present worth of the par value of the bonds. From this standpoint, also, the loss was the amount of the premium. It must be borne in mind that no one of these amounts represents the social loss, or the loss to the nation as a social unit. The loss spoken of is the loss which the government, or the whole people as a debtor, sustains to part of the people as creditor.¹ Moreover, all such computations are, at best, only guesses.

The direct loss from the forced purchase of bonds at a premium is not the only one to be considered. The purchase may do harm in addition by curtailing bank circulation. "It is difficult to estimate the full effect of bond purchases by the Secretary of the Treasury upon the volume of circulation of the national banks, for while \$24,117,400 of bonds were withdrawn and directly transferred for purchase, about \$8,000,000 being substituted, the total withdrawals amounted to more than \$40,000,000; but undoubtedly the larger part of the \$16,000,000 not withdrawn for transfer were either placed on the market or were purchased by the Secretary directly from the

¹ The transaction mentioned was equivalent to buying bonds at par, at about 2.1 per cent.; evidently since the government could not have floated a new issue of bonds at so low a rate as that, there must have been a loss on the purchase actually made.

banks after withdrawal.”¹ If the purchase of bonds forces the price up it may be more profitable for the banks to sell bonds, contract their issues, and take advantage of prevailing high rate of discounts to enlarge their loans.

That the Treasury purchases of bonds may force their price up there is no doubt. Speaking of a Treasury offer to purchase bonds, in 1887, the *Financial Chronicle*² said:

“Early in the week when it was represented that there would be no change in the Treasury policy prices sharply declined, and at times the market verged close on a panic. On Wednesday, after it was known that the offerings of four and one-half per cents. to the government had been very small, a recovery took place. This may seem paradoxical, but the theory was that it would lead the government to extend the offer to purchase bonds so as to include the four per cents. As this proved to be the case the very next day, the market further advanced, and it has been quite strong since.”³

But even this is not the whole case. Under cover of the excitement of a panic, influences may be set at work to “corner the Treasury” and compel the Secretary to purchase bonds. That is, public excitement, worked up for the purpose, may exercise a coercive power. This was undoubtedly one element in the crisis of 1890. Under cover of the panic a combination of speculators, “‘short’ of the stock market and ‘long’ of government bonds,” operated to force down railroad shares and force up government bonds. Of course the purpose was that the

¹ Rept. Comptroller of the Currency, 1890. Cf. *Ibid.* 1888, p. 453.

² Sept. 24, 1887.

³ See also pp. 176, 180.

"shorts" might "cover" at a profit, and that the others, in the apprehension created, might compel the Secretary of the Treasury to relieve the market and enable them to sell their bonds. That there was some such combination seems probable from the fact that, although the Treasury purchased heavily up to the 17th of September, the bulk of the money went outside of New York, but that all paid out on that day — on the consummation of the plan — remained in the city.¹

From the foregoing considerations it appears that the use of the Independent Treasury for affording relief in a panic by means of the money accumulated in the course of its operations is not a satisfactory mode of accomplishing that purpose. Its aid is arbitrary in method, very likely to be misdirected, generally insufficient as rendered, and actually promotive of injury by stimulating speculation, and by making it more difficult for the banks to replenish and keep intact their reserves. Even when it is helpful, the aid which the Independent Treasury can render is measured by the amount of its disbursements, and the maximum effect of this aid must be lessened by the easy conditions under which it is offered; or else, if these conditions are made harder, the aid which the banks could otherwise render is diminished, and counteracts to a certain extent the good effect of the Treasury operations. Moreover, the good done by the Sub-Treasury expansions is less in a delicate condition of the market than the evil done by its contractions. For contraction of the currency is quicker to produce distrust than expansion is to restore confidence.

The limitations of the usefulness of the Independent

¹ See *Banker's Magazine*, Oct. 1890.

Treasury for the relief of business when distressed are, then, very great. The helpfulness of an expansion of the currency in calming the disturbance, whether by the Treasury, or by banks, will depend in part on the nature of the crisis and its degree of severity. The Independent Treasury has all the limitations of banks in an attempt to relieve a crisis, besides many of its own. For even the banks are limited in such cases by the fact that under certain circumstances something more than an expansion of the currency is needed to give ease to business. A short examination of the character of crises will bring out more clearly the limitations common to both the banks and the Independent Treasury. If the disturbance is in its origin due simply to a lack of money, while business is in an otherwise healthy condition, an expansion of the currency, whether by an increase of bank discounts or notes, or by an outpour of a Treasury surplus, will relieve the crisis and prevent a panic ; but if the expansion is due to the Independent Treasury, this result will be attained, as we have seen, with more or less success, according to the skill of the Secretary of the Treasury. Even if a crisis becomes a panic, and is accompanied by a complete breakdown of the circulating medium, as in 1857, an Independent Treasury could, under certain conditions, do much to ease the situation. But such a case, as has been already remarked, is not now among the possibilities.

If, however, the crisis be an industrial one, an expansion of the currency, whatever its source, can be of little avail. A difficulty of this kind is due to a falling off of demand for goods in some line, or lines, of production. This lessening of demand may be caused either by some change of custom or mode of life, or by cheaper production

elsewhere, or by the too rapid transmutation of circulating capital into fixed capital. In this case the difficulty is likely to be lasting, and any increase of the amount of money afloat can have but little effect unless it is great enough and prolonged enough to enable debtors to "hold on" until the new fixed capital begins to make a return on the investment. But this is usually a matter of many months, or even years, and is too long a period to be influenced by temporary inflations or contractions of the currency. Hence, even if there had been money enough in the Treasury to satisfy all demands for it in that fatal third week of September, 1873, for example, the crash would not have been avoided, but only postponed. It might not have been so great, for many of the enterprises that had been undertaken proved sound ultimately; but many others were incapable of repaying the outlay on them, at least for a long time, and some not at all. These had to collapse.

The immediate cause of the culmination of an industrial crisis into a panic is loss of confidence. This is also the ultimate cause of commercial panics, and may be due to some slight accident that throws suspicion on firms previously supposed to be perfectly "sound," or to a wise conclusion on the part of traders that speculation has gone too far. Whatever its cause, a breakdown of confidence puts a crisis beyond the influence of Treasury disbursements, as we saw was the case in 1873. What is needed at such a time is a restoration of confidence, and confidence can be restored only by a period of quiet. Time must be allowed for the events of the crisis to pass from men's minds. "The track must be cleared of the wreck. The places left vacant by the casualties of the great crash must be filled by new men." The sting of

failure must cease to be felt, the memory of dishonored credit must be allowed to grow dim, new grounds of confidence must be seen, sound conditions of business must be re-established. With all of this the temporary absorptions and disbursements of money by the Treasury have nothing directly to do. There can be no restoration of business, and no rehabilitation of prices, until credit is restored. For prices are affected by the variations in the compound purchasing medium of credit *and* money, and credit is relatively the more important of the two.¹ Indeed, at such times money may be plentiful, as indicated by the prevailing rates of discount. But "cheap money does not necessarily mean active speculation and high prices. We have had our lowest prices and most stagnant markets when bank vaults were phenomenally overloaded."² A further outpour of money would therefore prove useless. And, indeed, it is extremely doubtful whether it is wise, in a so-called capital³ panic, to try to devise means whereby all the enterprises endangered by shaken credit may be preserved. Many of them are of such a character, that the interests of society will be better served by their destruction. The difficulty is that their undertakers usually involve others in their downfall, and the saving of these others is a legitimate and desirable object, even although its accomplishment involves some support of undertakings that are unsound.

Finally, the questions must be considered whether the Independent Treasury may not have an influence in creating stringencies which it afterwards undertakes to

¹ Cf. Taussig's "The Silver Situation." Public. of the Amer. Econ. Assoc., vol. vii., no. 1, p. 63.

² E. B. Andrews's "An Honest Dollar," *Ibid.*, vol. iv., no. 6, p. 8.

³ A too rapid transmutation of circulating to fixed capital.

relieve, and at what period of a crisis its help is most efficacious. As we have already seen,¹ Secretary Guthrie praised the Independent Treasury in 1856, on the ground that it exercises a restrictive influence on the banks when "over-trading" takes place, and so preserves "the general prosperity." The restriction is an indubitable fact. Is its result beneficial? The answer can be obtained only by an analysis of the general conditions of a crisis. The series of phenomena of a crisis, of whatever class, may be ultimately due either to what are known as speculative causes, or to any change in the business situation which gives rise to an increased demand for one or more commodities, or to a shortened supply of them, and so arouses hopes of larger profits than usual. The first class of conditions is sometimes known by Secretary Guthrie's word, "over-trading." That happens "when an impression prevails, whether well founded or groundless, that the supply of one or more great articles of commerce is likely to fall short of the ordinary consumption. In such circumstances all persons connected with those commodities desire to extend their operations. The producers or importers desire to produce or import a larger quantity; speculators desire to lay in a stock, in order to profit by the expected rise of price, and holders of the commodity desire additional advances, to enable them to continue holding. All these classes are disposed to make a more than ordinary use of their credit." . . . "Thus a rise of price for which there were originally some rational grounds, is often heightened by merely speculative purposes, until it greatly exceeds what the original grounds will justify."² Under this stimulated demand

¹ See page 59.

² Mill's Political Economy, Book III., chap. 24, § 2, and chap. 12, § 3.

prices advance still more, until the tide turns and the collapse comes. This occurs when the holders of the commodity are unable to borrow further, and so must sell to meet their obligations. This time comes when the banks feel the necessity of contracting their discounts, a necessity that is hastened by the drain of the precious metals which the rise in prices almost invariably causes. In what way is this course of events influenced by the action of the Independent Treasury? As the rise in prices is in this case supposed to be due wholly or mainly to speculation, evidently any influence that opposes the speculative spirit will retard, perhaps check, the rise of prices, and may prevent their reaching a point of danger. The retarding influence usually operative in such cases is the export of the metals; but any other cause tending to contract the currency will have a similarly beneficial effect. The absorption of money by the Independent Treasury is such a cause, and may, therefore, be regarded as herein beneficial. It not only diminishes the amount of money, but, as it draws mostly from the banks, it at the same time diminishes their power to lend. Hence it may exercise a powerful restraining influence on speculation, because it will arrest speculative extensions of credit at an earlier stage, with a less drain of gold. As the amount of their own notes which banks have to loan is limited, deposits are their chief means of discount. Hence the rate of interest must rise immediately when the demand for loans trenches on the deposits beyond a certain point, loans become more difficult to get, and speculation is checked. This process is made to begin earlier if the Treasury is absorbing money at the same time. Its restriction of the banks under these circumstances "is a real impediment to their mak-

ing those advances which arrest the tide at its turn and make it rush like a torrent afterwards." The Independent Treasury can exert such an influence, however, only when its absorption of money coincides with this stage of the stringency. A certain guaranty that such coincidence will occur is found in the fact that, under the circumstances described, the export of the metals generally implies import of commodities and consequent payment of custom dues. But such coincidence can be regarded as certain, only when the speculation affects commodities which are imported subject to duty. Under our inclusive tariff system such articles will generally be thus affected, however; and we may, therefore, regard the effect of our Independent Treasury as usually beneficial in this phase of the inflation of prices.

There are still other sets of conditions in a speculative market. Exchange may be in favor of this country, prices may be rising, and yet there may be a drain of gold. This was the case in 1890. Under such circumstances, in so far as the gold we lose belongs to foreign creditors, no action we can take will prevent our losing it if its owners are in great need, as seems to have been the case at the time mentioned. Its loss, of course, may injure us by contracting the currency and obviously any further contraction by the locking up of money in the Treasury vaults must then be an additional injury. But if the gold is going abroad, attracted by higher rates of interest, as when the Bank of England by arbitrarily raising its rate of discount tends to raise the rate generally in the kingdom, then the Treasury action will tend to keep the gold here, by making it temporarily scarcer. The export will not stop until the scarcity of money here raises the rate of discount to a point where

the home rate, plus cost of carriage, will be about equal to the foreign rate. But nothing is gained by this. Money becomes scarcer just the same. What we would have lost by export is locked up by the government.

When, however, speculation has attained its culmination, when the point of danger is reached, and a collapse of prices is threatened, the situation is different. The need is for free discounting at high rates; but the amount of loans that the banks can give is limited, because a large amount of money that would otherwise be at their disposal is locked in the vaults of the Treasury. Now the influence of the system is evil. The evil is lessened, indeed, if the money is at once disbursed; but, as already pointed out, the money usually comes out, if it comes at all, under conditions that lessen its usefulness in calming a panic or relieving a stringency.

If, however, the monetary stress is caused not by an advance of prices under the stimulus of speculation, but by some cause withdrawing capital from the market, the whole case is different. Such are times when, for example, heavy foreign payments have to be made, or when there is a rapid transmutation of circulating into fixed capital. Such drafts are met either by the withdrawal of deposits from the banks, or by the sale of property, as securities, or by the contraction of loans. In any case, the source of loans is curtailed, the rate of discount rises, loans are made only on "prime" security, and "shaky" houses go down, probably involving in their ruin some that are virtually solvent. The cause of the evil in this series of phenomena is the reduction of loanable funds. Any influence contributing to that reduction intensifies the evil. The locking up of money in the vaults of the Independent Treasury is such an influence, and that

action is therefore bad. The results will come about if the absorption by the Independent Treasury coincides with the withdrawal of money from the market for any of the purposes indicated. When the money comes out of the Treasury again, if the need still exists for drafting it for any of the objects mentioned, the disbursement will be good, unless it is made in a way to encourage hoarding. If, however, the disbursement is delayed until the market has turned and prices have adjusted themselves to a lower level, it can do little or no good.

The substance of this analysis, then, is that, so far as crises are concerned, the Independent Treasury exercises a beneficial influence only in the early stages of a crisis caused by a speculative advance of prices; that in the later stages of such an occurrence its influence is evil to a greater or less degree, according as its receipts happen to exceed or to be less than its disbursements; that in a stringency caused by a rapid but healthy increase of business, its absorptive influence is wholly bad, but that in the later stage of such a crisis its disbursements are promotive of good, unless mismanaged or too long delayed.

Hence we see that the coincidence of a particular phase, or stage, of the action of the Sub-Treasury with a particular phase, or stage, of the progress of a crisis, is necessary in order that the influence of the Sub-Treasury may be beneficial. But such a coincidence is purely fortuitous, and this fact deprives the system of all value as a scientific mode of relief in crises.

Moreover, whatever support for the continued existence of the system is found in the aid it renders the community when in financial distress, will soon be taken away. It cannot be long before the public debt will be so reduced that any succor from the purchase of bonds by the

Treasury will be of but little avail. If the policy of surplus financiering be continued after that, the only apparent way in which the government will be able to aid in a crisis will be by lending its money directly to those who need it, or by depositing it in the banks. The former policy is altogether out of the question. The latter has already been a matter of discussion, and has been tried to a certain extent. Its consideration must be reserved for the next chapter.

CHAPTER VIII.

PROPOSALS FOR THE REPLACEMENT OF THE INDEPENDENT
TREASURY.

THE trend of our conclusions drawn from the working of the Sub-Treasury system to-day is that the harm done by it is greater than the good, which is the opposite of what was true when the system was established. At present the only important advantages of the system are its occasional accidental restriction of the expansion of bank loans under the influence of speculation, the certainty that the government can get its money for use promptly without disturbing the market, and its occasional assistance in stringencies and crises. But of even these advantages the first and third are uncertain, and the system is a continued source of disturbance to the money market and the banks.

The independent treasury system is an excellent illustration of two very important facts, for the consideration of which it is worth while to make a short digression. These are the practical, make-shift policy of English and American administration, and what has been called the relativity of institutions. When part of the machinery of administration is found to work badly, or when conditions arise which were not contemplated at the time the administrative system was planned, the usual Anglo-American way of meeting the difficulty is, not to create a new system, but to patch and twist the old one to make it do the new work or meet the new conditions. The

result is often, from a scientific or systematic standpoint, a grotesque aggregation of unrelated details, which, however, is made to work with reasonable smoothness in practice, by the adaptability and hard common-sense of the race. Witness, for example, that bundle of incongruities and political and administrative manikins called the English Constitution. Or, as a less important illustration, consider the heterogeneous organization of our own Treasury department. The same method obtains in our political life and our law. A defect in either is not always remedied by reconstruction, but by an addition to meet new requirements.

Two important practical results flow from this Anglo-American mode of progress. One is that it prevents any of those sudden overturning of institutions such as are so common among the Latin races, for example. Revolutions with us are gradual. The other consequence of the custom, really a corollary of the former, is that general schemes of reconstruction and reform are looked at askance by our people. Consequently, proposals to change any existing institution, if they are to receive consideration, must not depart very widely from the system already existing. Any proposed new plan must be based as far as possible on that in vogue already, if it is to meet with such general approval as will insure its early adoption. This fact has an important bearing on any proposal that may be made to amend our Independent Treasury system. It is better to keep a system whose evils we know, than to adopt an entirely new one, built on an ideal plan, whose defects we can only guess.

There is really a deep philosophical reason for the race custom we are discussing. Its immediate explanation is, of course, the innate conservatism of the race.

But it is really an unconscious adherence to the truth contained in the doctrine of the relativity of institutions, which is the topic of the second of the digressions mentioned. It is a recognition of the truth that every existing institution has served a purpose, has met a want, has had a reason for its creation. The truth contained in the doctrine of the relativity of institutions is simply that at the time of adoption of a particular institution or political method not all of the data were known or understood for a scientific, that is, a universal and permanent, solution of the problem on hand. It does not follow from that doctrine, as is sometimes assumed, that old systems and methods should be replaced with others entirely new; or, as is also sometimes assumed, that no scientific, that is, universal and permanent, system of politics and economics is possible. Natural social, political, and economic laws are not proved to have no existence because thus far in the world's history there are many departments of life in which no system has been found that will serve all nations and ages.

A claim of this kind might be made in the case of any science. Because, for instance, there is some truth in the statement that "morality varies with the latitude," it does not follow that there is no eternal, immutable law of right and justice.¹ So in Sociology, the fact that social, political, and economic institutions have varied, grown useless, and decayed, does not prove the impossibility of a universal solution of the problems these institutions have tried to solve. We may yet hope that some time there will be discovered, for instance, a scientific law of banking and a universal and permanent solution of the vexed paper-money question.

¹ Cf. Janet's "Theory of Morals," pp. 161 — 162, 309 ff.

The bearing which the subjects of these two digressions have on the subject in hand is both close and important. Any proposals looking towards the remedying of the evils of the Independent Treasury system should have reference to both of them. Such proposals should look therefore rather towards a modification than a complete supplanting of the system; should recognize the fact that the sub-treasury system was created to meet a special need, which still exists, although the development of the country has given rise to other needs whose importance is only secondary to that which the Sub-Treasury was designed to meet.

The primary purpose of the adoption of the Independent Treasury was the safety of the public money. It is unnecessary to recall in detail the viciousness of the banking system that prevailed at that time, for it is familiar to all students of our financial history. To have continued to intrust the public money to the banks, as they were then constituted, would have been to invite frequent embarrassment and often positive loss to the government. It may be said, indeed, that the deposits of the nation would have been safe enough if the life of the second United States bank had been prolonged, and that the political strife that brought about its destruction was the cause which made the creation of the Sub-Treasury system necessary. It is true that up to a certain time the public deposits in that bank were safe, and that the reasons for its overthrow were political rather than economic. But whatever view one may take of the political motives and measures that caused its downfall, there is good reason for thinking that its preservation as a semi-public institution would have become impossible in any event; and certainly there was no likelihood at all of permanent

safety for the public deposits in the banks that succeeded the national institution. Some means had therefore to be devised to secure safety, and under the prevailing public opinion no better means could have been found than that which provides that the government should keep its money in its own vaults. This plan had its peculiar dangers, to be sure. It exposed the public money to risk of loss from accident and from speculation at the hands of the inexperienced officials who were necessary under the new system. But there is no reason to think that these were personally less honest than the officers and employees of the banks; and they were probably fewer in number, and less exposed to the temptation of using the public money for their personal ends, because they had not the facilities for using it which were open to those employed in the banks.

A second purpose of the establishment of the Independent Treasury was to furnish a safe currency. This was one of the purposes for which the second national bank had been chartered; and it was claimed, with some show of reason, that the purpose had not been fulfilled by that institution. After the fall of the national bank, there was no method available for the provision of a safe currency, and for its regulation, except for the government to undertake the matter itself. This plan, again, to be sure, had objections peculiar to itself. Treasury notes as well as bank notes would depreciate under certain circumstances, and the government could not on all occasions make all its payments in specie. Yet under the circumstances the government issues were incomparably superior.

But in providing for the safety of the public funds and for a safe currency, the Independent Treasury did not provide, at least sufficiently, for elasticity in the circu-

lating medium; nor did it insure business against disturbances due to the alternate and arbitrary contractions and expansions of the currency which its operations caused. These evils, indeed, were at that time of less moment, because, as we have seen, the financial operations of the government were not sufficiently large to do much harm. To-day the situation is different. The need of elasticity and the necessity for the prevention of disturbance by the Treasury operations, have become of greater importance as the business of the country has expanded. While in 1846 the Treasury was comparatively isolated from the business of the country, the influence of its operations now is felt in every direction; there is scarcely an industry in the country that is not more or less affected by its operations. "The annual and daily transactions of the Treasury have become so large, its financial operations and movements touch the interests of the people at so many points, that great care should be taken to avoid any unnecessary friction. As the country increases in wealth and population, with the consequent increase of its revenues and disbursements, it will be found impossible to continue the system in its present form."¹

As the national debt is reduced, it becomes more difficult so to adjust the purchase of bonds as to furnish relief to the money market at times when it is strained. "As these derangements happen almost invariably at the time of the moving of the crops of the country, this statement is equivalent to saying that every productive interest in the country must pay toll to foreign buyers through the lower range of prices which obtain at such times, because of the fact that our arrangements for collecting

¹ Report U. S. Treasurer, 1886, pp. 67-68.

and disbursing our revenue are so defective as to need an artificial and violent remedy in order to place in active circulation the moneys withdrawn from the business of the country.”¹

Of course, safety for the public money is as necessary now as it ever was; but it can be secured in other ways. The public money on deposit in banks is in far less danger of loss to-day than at any previous period of our history. “The painful experiences of 1839-40, and the active discussion of the principles of money and banking which they called forth; the growth of a public sentiment condemning an excess of paper issues, and the formulation of precepts, more or less carefully observed by bank managers; a vast improvement in the commercial morality of the country, due partly to education, and even more to the development of manufactures which, to a vastly greater degree than agriculture, rest on good faith and commercial honesty; the shortening of the terms of credit,—these causes [with others] served to place the paper-money issues of the United States on an improved basis between 1840 and 1860.”² General Walker might also have added that these causes have rendered the safety of deposits also more secure, and that the more recent development of banking has been marked by even a steadier and greater improvement in respect to the safety of both issues and deposits.

Since the safety of the public money can be secured as well in some other way as by the Independent Treasury; and since that system under present conditions produces effects that are of great injury to business, the question naturally arises whether some method cannot be found

¹ Report U. S. Treasurer, 1886, pp. 67-68.

² F. A. Walker's "Political Economy," p. 443.

whereby the evils of the system can be largely or wholly obviated, while yet its good points shall be conserved; some method which shall continue the insurance of safety, but shall provide for greater and more automatic elasticity of the currency; shall put an end to the disturbance of business by arbitrary absorptions and disbursements, shall prevent the occurrence of stringencies in the money market from government operations, but shall yet furnish a means of affording relief in crises to as great an extent, at least, as the Independent Treasury does now. Safety is, of course, the prime requisite. Its loss could not be offset by any other advantage that could be secured. That the Treasury shall get its money when it needs it, in full, freely and promptly, is the most important consideration, and no proposal that does not provide for that end should be considered for a moment.

The experience of other countries in such matters is valuable and usually suggestive of improvements, and a short account of the methods in use abroad for keeping the public money will be helpful.

In England, as is well known, the money of the government is kept in the Bank of England. "As the banker of the government the Bank of England manages the payment of dividends on the national debt, the issue and withdrawal of exchequer bills, treasury bonds, the issue of all government loans, and the banking operations connected with the Treasury, the government offices generally, the Indian government, and a large portion of the monetary business of the colonial governments." ¹

¹ Palgrave's "Dictionary of Political Economy."

The Bank of England transacts the whole business of government. "She acts not only," says Adam Smith, "as an ordinary bank, but as a great engine of state. She receives and pays the greater part of the annuities which are due

As the public money is received from taxes it is paid in on behalf of the government, to the account of the exchequer, at the Bank of England or of Ireland. No security is required from the bank for these deposits. The government is on the same footing as other depositors. Hence there is no disturbance caused in the money market by the variations in the volume of currency due to government receipts and payments; for the money in the bank is practically in the channels of business, since it is within each of the demands of business.

The English method of checking a panic is familiar. As is well known, the paper circulation of the Bank of England is limited to about £15,000,000,¹ secured by government stock, plus as much more as the bank may choose to issue, provided only it has Pound for Pound of bullion for every additional note. If in a time of panic the pressure becomes so severe as nearly to drain the specie of the bank, and so threatens to make a stoppage of discount necessary, with the terrible loss that such a stoppage would involve, the Ministry permits the bank to issue notes in excess of the legal limit. This course was necessary for the first time in the crisis of 1847. After the resources of the bank were exhausted, the government authorized it to issue at discretion, and the panic was immediately stayed. The excess of notes issued was only £400,000. The next suspension of the Bank Act was in 1857. The resources of the bank at the close of business on "the 12th of November of that year were

to the creditors of the public; she circulates exchequer bills; and she advances to the government the usual amount of the land and malt taxes, which are frequently not repaid till some years thereafter."—*Encyc. Britan.*, 9th ed., *Art. Banks*.

¹ £14,475,000.

£68,085 in notes, £274,953 in gold, and £41,106 in silver, being a total sum of £387,144.”¹ The bankers’ balances alone in the bank were £5,458,000. On the evening of the 12th the government authorized the suspension of the Bank Act, but fixed 10 per cent. as a minimum rate of discount. Next morning the panic passed away. £7,376,000 were issued in excess of the statutory limit. The issue ran through November, thus showing that the commercial pressure was prolonged after the panic was broken. A suspension in 1866 produced similar quieting effects.

The conditions under which the suspension of the act of 1844 is permitted are carefully restricted. All profits from the extra issue of notes must be paid to the government, and the minimum rate of discount must be kept at 10 per cent. But although the Bank of England “is the chief depository of a government which maintains no public treasury; [and although] it is charged with the duty of keeping the registry of the public debt, and of paying the interest thereon; still it is a private corporation of the familiar type, managed by its own officers, in whose selection the government has no share, and whose responsibility is to their own stockholders alone.”²

The government never suffers any inconvenience from delay in drawing its deposits; its drafts are always promptly and fully met, and frequently it is accommodated with advances from the bank in anticipation of revenue. The English system has furnished for England the safety and promptness of payment which are necessary for the public money, and it avoids the disturbance of the money market that is a consequence of our system. Its

¹ MacLeod’s “Theory and Practice of Banking,” vol. ii., p. 356, 4th ed.

² Dunbar’s “Theory and History of Banking,” p. 184.

provision for panics, though clumsy, has proved effective. It is superior to our Treasury management of such occurrences, in that it is not dependent on the will of a single man, but must have the approval both of the officers of the bank and of the officials of the government; and as the officers of the bank are in close touch with business interests they are better able to judge of the time when action is necessary. The terms on which discount is offered are, by the conditions of the suspension of the Bank Charter, prevented from being too easy, and the bank can make them as much more difficult than the government minimum¹ as it chooses, because the law does not fix a maximum rate of discount. Moreover, the expansion of the currency is temporary, lasting only long enough to restore confidence; the amount of expansion depends wholly on the demand, is caused by it, and contracts with it, so that expansion beyond the need of the time is not possible, while yet it can be made as great as the demand; in short, the amount of expansion and the demand for expansion vary together, and the policy of a variable rate of discount gives the bank control of the demand, within certain limits. And finally, the profit from the transactions for the relief of a panic goes to the public Treasury, whereas under our system the sale of bonds by the Secretary of the Treasury is susceptible to the influence of speculators, and makes it possible for them to gain from the purchases of bonds by the government.

In France we find a different system still. The Bank of France is an "institution subject to the control, and made subservient to the needs, of the government of the day."² But the Treasury keeps a running account at the

¹ Ten per cent.

² Dunbar's "Theory and History of Banking," p. 110.

bank, which is regulated by the same principles that govern the accounts of individuals, and the Treasury is allowed by law to borrow from the bank to the extent of sixty millions of francs.² The revenue is collected by government officers, or "*Trésorerie Payeurs-Général*," in the different departments. The money received is first employed to pay the expenses of the department, and any excess is forwarded to the Treasury, in the form of prime bank paper or of first-class commercial bills of exchange having not more than thirty days to run. The *payeurs-général* are expected, however, to maintain deposits proportionate to the needs of their work.

When the local resources are insufficient to pay the expenses of a department, the paymasters general (*payeurs-général*) can either make payments by drafts on the Treasury or on neighboring departments, or by opening credit accounts with the branches of the Bank, or, finally, by receiving funds from Paris.

The *payeurs-général* are forbidden to engage in banking operations except in movements of funds which result in facilitating the service of the Treasury.

Although the Bank of France is used by the government for keeping the public money, it is not a fiscal agent of the government, like the Bank of England. It does not collect or disburse the revenues of the Treasury; but it lends largely to the government in times of need, and its credits have carried the government through many trying exigencies.

Although this system must affect the amount of money afloat by alternate absorptions and disbursements, it probably does so to a less extent than our Sub-Treasury, because the deposit of government balances in the banks

¹ Block's "Dictionnaire de l'Administration."

prevents large accumulations in the treasury. Moreover, small variations in the circulating medium are of less importance in France than in England or the United States, because business is done to a much less extent by credit. Cash transactions, that is, bear a much larger proportion to the total volume of business than is the case in this country or in England. There is no regular method for furnishing government assistance to the business community in a panic. That is left to the banks, except in very extraordinary cases in which political causes have had an influence. In such cases the government has given a legal tender character to the notes of the Bank of France, which enjoys a monopoly of issue, by decreeing what is called the "*cours forcé*." But ordinarily, with the policy of a variable rate of discount, the banks have been able to control crises.

Like the Bank of England, the Reichsbank of Germany is in its organization a private institution; that is, its stock is owned by private individuals. But the government has a power of control over it, and appoints the board of directors, and shares in its profits. The bank is "required to receive and make payments, and to conduct other financial operations for the Imperial Treasury without compensation, and also to manage free of cost the receipts and payments of the several states of the Empire."¹ The German bank law is modelled largely on the English. Its tendency is ultimately to concentrate in the Reichsbank the whole power of issuing notes. Meantime, that bank is allowed to issue its apportionment, which at present amounts to 286,585,000² marks, not secured by cash in hand. If any notes are issued above

¹ Dunbar's "Theory and History of Banking," p. 190.

² *Ibid.*, p. 192.

the amount which the bank is allowed by law to put out without special security, they must be secured by specie, treasury notes, or the notes of other banks. Unless the surplus notes are thus secured, a tax of five per cent. is by law imposed on them. It is by taking advantage of this law that provision is made for an expansion of the currency on occasion of a severe monetary stringency or a panic. The tax of five per cent. is so high as to make extra issues unprofitable except at a time when the demand for money is so great as to cause severe pressure in the market. Hence the extra notes issued under these conditions are quickly retired when the money market resumes its normal condition.

In Germany every bank of issue is required, like our national banks, to receive the notes of its sister institutions at par; but it cannot pay them out again, unless they are notes of the Reichsbank, except for redemption or in payments to the bank that issued them. The bank notes are not legal tender, and are not received for public dues except under conditions which the government may withdraw at any time. Every bank must redeem its notes on presentation at its own counter, and also at an agency in either Berlin or Frankfort.

In Germany we find, then, that the money raised by taxation is not withdrawn from the channels of business, but is at all times accessible by being deposited in the Reichsbank and its branches.

In Germany, too, as in England, provision is made for panics by an expansion of the bank-note issue. The German provision is, however, much more satisfactory than the English, because its machinery is set in motion more automatically. When the demand for money raises discount rates high enough, under the German system

the extra supply comes forth of itself in the natural and ordinary course of business. It is not necessary, as it is in London, to wait for the decision of men even so experienced as the bank directors that the time has come for a suspension of the Bank Act. The extra issue is not in Germany dependent on the judgment of any man or set of men as to its necessity. The exhaustion of the ordinary supply of money, and the readiness of borrowers to pay a sufficiently high rate of interest for loans, is at once the evidence of the necessity for expansion and the power that induces it. The extra supply cannot come without the strong demand; and the demand cannot exist, under the laws of trade, without bringing a sufficient supply. The movement is thus automatic. The only part of the whole plan which depends on the judgment of those who work it, is in the fixing of the rate of the tax on extra issues. If this were put too high a monetary stringency might have to become exceedingly severe before the bank could issue notes over its legal limit without loss. But there is very little room for error here, and five per cent. per annum is a sufficiently low rate.

It is not necessary to describe the system of financial administration of still other countries. Italy and Russia have national banks in which the money of the government is kept, and which aid the government in its financial operations.

Although our own government formally separated itself from banks and banking by the establishment of the Independent Treasury system, it was in a few years driven by the course of events into a renewal of intimate relations with them. The exigencies of the Civil War compelled the government, as we have seen, to resort to the banks for support; and the connection then re-estab-

lished has become more extensive and closer as the country has developed and the financial operations of the government have assumed a larger scale. In the fiscal year 1891 the number of national banks which held public money on deposit was 213, but the policy of the present administration has been to reduce the number. For the past thirty years, then, the country has maintained a bank connection alongside of the Sub-Treasury system. It is desirable, in order to obviate the evils of the Independent Treasury, that this use of banks be enlarged so as practically to supplant the Sub-Treasury entirely. The advantages that would result from doing so are very great. The depository banks would furnish a ramified system of receiving and disbursing points for money due to and from the government, and thus would be a great convenience to the government, to those who have taxes or other public dues to pay, to the public creditors, and to disbursing officers. Even now, without the banks the friction and difficulty that would occur in these transactions would be intolerable; and no equivalent system of independent depositories could be established and maintained except at a cost to the government altogether in excess of the benefits it would bring. The banks perform these duties cheaply because they are in the line, so to speak, of regular banking business. If complete independence of the banks were insisted on by the government now, every patent-office fee, every internal revenue tax, in short, every sum due the government, would have to be remitted in money to a sub-treasury, or depository, perhaps some hundreds of miles away.

Besides the great inconvenience that would ensue from the use of independent depositories only, there might possibly result in many places a disturbance in the

local distribution of money which would be very injurious.

The use of banks as many local centres of government financial management obviates all these disadvantages; and they furnish collecting and disbursing officers with safe and convenient places to keep their money.

Finally, and most important, the use of the banks as sole government depositories would do away with those inequalities of strain in the money market which the Independent Treasury sometimes causes. Money, the great tool of exchange, and the main direct basis of credit operations, would be left available more fully than now, so far as the operations of the government are concerned; and the friction caused by its arbitrary absorptions and disbursements would be avoided.

There is nothing new in the proposal to use banks for the deposit of the public money. As has just been pointed out, the country has been gradually drifting to the policy, and it has been advocated strongly by men of various shades of political opinion, as well students of finance as men in practical life.¹

It is both fortunate and unfortunate that any proposal to use the banks of the country more largely for government purposes arouses suspicion among a large number of our people, and recalls to them memories of the unfortunate experiences of the government with the banks as they were forty, fifty, or sixty years ago. It is fortunate because it insures a careful scrutiny of any method proposed for the revival of the connection between the Treasury and the banks, and so will prevent hasty action; it is unfortunate, however, in the intensity of suspicion and opposition which it arouses, because there

¹ See pp. 96-98, and also various Finance Reports.

is danger that proposals for reform in this direction will meet but scant favor. The feeling of opposition is increased by the recollection of the political issues that arose out of the connection between the government and the Second Bank of the United States, and the fear on the part of many that the banks might, if they acquired any relations with the government, obtain political power, to the detriment of the interests of the people.

But if any one thing in connection with this matter has been settled by the drift of our past experience, it is the impossibility of the acquirement of political influence by the banks, as at present organized, from their mere relation as government depositories. Of course a single national bank, like the old United States Bank, or the national banks of England and Germany, is not contemplated. Such an organization is impossible in the United States now. We must discuss our banks as they are; and they could not become a part of politics under existing conditions. For, as we have already observed, the tone of the banking community is far higher than it was; the spirit of our people is so hostile to corporate power that collusion between the banks and the party in power would not be tolerated; the banks are too numerous to admit of a monopoly of government patronage, even if such a monopoly were lawful, as it is not; their large number would induce a rivalry that would prevent favoritism; and, finally, and strongest reason of all, there would be no temptation for any single bank to enter politics, even if it could, for it would have nothing to gain by so doing, and a combination of banks for that purpose would be utterly impracticable.

One argument that has been advanced on political grounds against the use of the banks, is that as it would

be to their interest that the government should have large surpluses to deposit, they would use their influence to keep up taxation, and that they would therefore favor "protected" interests. There are conceivable conditions under which such a course would be possible, but they do not exist in this country. If there were but one government bank, so strong that it could coerce the government or have a weighty influence in national legislation, the result mentioned might occur. But such is not the case with us, and our public opinion is too jealous of banking corporations to make it safe for the banks to try it.

The political issue finds no room for consideration, then. The question of the reorganization of the financial system of the government is not, and need not be, a party question at all; for no changes that, under existing conditions, would, or could, be made, could endanger in the slightest degree the integrity of our political institutions, or interfere with the prerogatives of any branch of our government.

Nor, on the other hand, need we fear that the existing executive at any time could show favoritism towards one or more banks at the expense of the others, as some charged President Jackson and his Administration with doing. For some simple legislative provision, as, for example, giving all the national banks the right to bid for public deposits, would do away with any possibility of "pet banks."

In order to understand clearly the points at which improvements in the connection of the government with the banks could be made so as to get rid of some of the evils of the Sub-Treasury system, it is desirable to examine the conditions of that connection as it exists at present.

It was provided by the law¹ establishing the National Banking system, that all national banks designated by the Secretary of the Treasury for the purpose should be depositories of public money, except receipts from customs. They may also be employed as financial agents of the government, and are required to give satisfactory security, by the deposit of government bonds "and otherwise," for the safe-keeping of the public deposits and the faithful performance of their duties as government agents. They are also required by this law to receive the notes of all other national banks at par. Any banker or broker not an authorized depository, is liable to prosecution for embezzlement, if he receives or in any way deals in the public money. The public depositories are further required to forward all mutilated and worn notes to the Comptroller of the Currency for redemption, and to assort and forward the notes of banks that reduce or withdraw their circulation. The notes of the national banks are not received by the government for duties on imports, and are not paid out by it for interest on the public debt. The security required for deposits by the government is within the discretion of the Secretary of the Treasury. The bonds hitherto required as security have been bonds of the United States, or bonds guaranteed by the United States, such as the "Pacific currency sixes" or the "3.65 bonds" of the District of Columbia. The Secretary could legally accept other security than United States bonds if he chose, but the custom thus far has been not to do so. The amount of bonds required to be deposited as security is such as the Secretary of the Treasury may deem proper, but must be at least \$50,000. The depositories are required to make daily returns of their receipts of

¹ See Appendix, II. H.

public money to the Treasury Department, and if at any time these receipts exceed the amount of bonds deposited by the bank as security, additional bonds must be provided immediately, or the surplus of deposits over security must be given up.

The amount of deposit allowed on bonds has varied under different Secretaries of the Treasury. Until about 1885, or 1886, but few depository banks were allowed fixed balances, because the practice was for the Treasurer to draw upon his balance whenever he needed funds. At about the time mentioned, however, the practice became general to allow a fixed balance equal to ninety per cent. of the United States four per cent. bonds, and a somewhat smaller amount on the three per cents. and four and a half per cents. Later the depository banks were allowed to hold public money up to the par value of the bonds deposited as security, and in some cases even above the par value.¹

It is clear from the conditions on which the depository banks are allowed to hold the public money, that ultimate loss is altogether out of the question so long as the conditions are observed. The element of safety is abundantly provided for, because, even if any bank should fail to pay the deposits left with it, the bonds held by the government as security could be cancelled or sold. Sale would be necessary to prevent loss if the deposits allowed exceeded the par value of the bonds held. And there would be a possibility of some loss if between the time of deposit and the failure to repay there occurred a fall in the market price of bonds on which deposits were allowed above par. But such a loss could not be experienced

¹ See above, pp. 86-87.

except by the gross negligence or mismanagement of government officers.

The present provisions for insuring the safety of the public deposits are in marked contrast to those which obtained under the bank deposit system of 1836-1846. By the articles of agreement with the banks then, security was taken for government deposits only if they exceeded one-half the capital of the bank, or if the Secretary of the Treasury deemed it at other times necessary.

Still other guaranties of safety for the public deposits are that the number of depositories is larger now than it was in 1846, and that the banks are stronger and have larger capital.

But although ultimate loss is thus abundantly guarded against, there are other objections that have been made to the use of depository banks, which deserve consideration. These objections were summarized by Secretary Windom in his reports for 1889 and 1890, in justifying his reversal of the policy of his predecessor, who had made large use of the banks for depositing the public money in order to prevent contraction of the currency. The objections as stated by Mr. Windom are as follows: "The national bank depositories have been, and are, useful auxiliaries to the Sub-Treasury system, but the deposit of public funds therewith to an amount largely in excess of the needs of the public service is wholly unjustifiable. Such a policy is contrary to the spirit of the act of August 6, 1846, which contemplates a Sub-Treasury independent of the banks.

"It necessarily involves temptation to favoritism of the most objectionable character.

"It makes the Treasury more or less dependent on the banks, on account of the difficult and delicate task of

withdrawing the deposits when wanted, without creating serious disturbance of financial conditions.

"It involves the exercise of a most dangerous power by the Secretary, whereby he may, if so disposed, expand or contract the currency at will, and in the interest of certain favorites whom he may select.

"It is grossly unjust to the government to grant the free use of its money, while it pays to the very parties thus favored four, and four and a half per cent interest on its own bonds, which are pledged as security for the money thus received.

"... It is manifestly unfair to the people to give the banks the use of their money, while they are required by the banks to pay from six to eight per cent interest on it.

"Bad as these features of such a policy are, a more serious objection is found in the difficulty and danger encountered in the withdrawal of such excessive deposits. Money thus deposited goes at once into the channels of trade, and business is adjusted to the increased supply.

"A sudden or injudicious withdrawal would be felt far more seriously by the large class of business borrowers than by the banks. The latter are money-lenders, and a stringency may only increase their rates and add to their profits; while the former, having based their business ventures upon the accommodations offered by the banks, may be utterly ruined when such accommodations are suddenly withdrawn."¹

In his report for 1890 Secretary Windom advanced the further objection to depositing the public money in banks, that such deposits afford no relief for a sudden emergency.

¹ Finance Report, 1889, p. lxxxviii.

We will discuss first those of Mr. Windom's objections which are either without good foundation, or can be easily met by changes in the law. His first objection to the use of banks by the government, that their employment is contrary to the spirit of the Independent Treasury law, is, undoubtedly, in a measure correct; and Mr. Windom is to be praised for his conscientious adherence to what he conceived to be the spirit of the law. An extension of such conscientiousness would redound to the good of the public service. But the act of August 6, 1846, had been partly superseded by a section of the national bank law, and the new law had been followed in some shape for many years. It is difficult to see why greater importance should be attached by the Secretary to the one law than to the other.

Moreover, an extension among public officers of the habit of interpreting the laws they are called on to administer, in a way which they conceive to be the spirit of the law, would be an assumption of a dangerous prerogative, if the course of action which these officers declare to be contrary to the spirit of the law is really permitted by its wording. It is to be presumed that the legislature expresses its will plainly and intelligibly. If it does not, then, indeed, the administrators of the law must enforce it as they understand it, subject to the interpretation of the courts.

Finally, whatever force may lie in this objection of Mr. Windom's to the use of national bank depositories under present regulations could, of course, be made to disappear by the enactment of a new law.

The objection that the use of the banks as depositories involves temptation to favoritism is hardly worth considering, in view of the fact that the temptation has been

so successfully resisted in the past. That the use of the banks, as the banks have been used in recent years, has actually involved favoritism, there is no proof worthy of consideration; but even if there were, the fact would be an objection to the existing conditions of the employment of the banks, and not to the employment itself. And, as was previously pointed out, this difficulty could be easily overcome by some simple provision of law requiring public competition for deposits.

It is true, as Mr. Windom says, that the use of the banks gives the Secretary of the Treasury power to contract or expand the currency at will, within limits, and that such a power in the hands of an incompetent or partisan Secretary is a source of danger to the business interests of the country. But he has just as much power and opportunity to do this mischief through the purchase of bonds with a surplus, as by depositing it in the banks. The injudicious course of Secretary Boutwell in 1872 and 1873 is a case in point. He unwittingly played into the hands of speculators, and by his ill-advised disbursements of surplus money he probably disturbed the market at least as much as he could have done by any misuse of the bank depositories. We have seen abundant proof, in the course of our investigations, that lack of judiciousness on the part of the Secretary of the Treasury has many times proved mischievous in periods of financial stringency. The Secretary, then, certainly has as much power for mischief under the Independent Treasury system as he would have under a system requiring the deposit of the public money in banks. Whether he would have more inclination to misuse his powers under the one system than under the other need not be discussed; for no reason appears why he should. Moreover, it would be possible,

under the system of using the banks as depositories, to take away any power the Secretary may now have of arbitrarily affecting the volume of circulating medium, by requiring the public money to be deposited in banks when, for example, it exceeded a certain sum, and making the opportunity of securing part of the deposits open to all national banks that would meet the requirements of the law. Under the sub-treasury system this power cannot be taken from the Secretary, so long at least as there is a surplus of receipts over expenditures. This objection of Mr. Windom's to the use of banks has, then, like the others thus far considered, no force whatever of importance.

There is reason, however, in the objection that it is unjust to give the banks the free use of public money. Such a use the banks have no right to, and do not, as a matter of fact, ask for. All that they have any right to is a reasonable remuneration for any extra trouble and expense to which they may be put by being compelled to perform the duties of government depositories. They should be paid for services to the government as they are paid for services to private persons. The return they receive for performing duties of depositories or fiscal agents may or may not be the mere right to a franchise; that is a question of detail to be determined by circumstances. On the other hand, banking corporations are entitled to no favors from the government. If rightly managed they need none and will ask for none; and both equity and the spirit of our people demand that they should pay for whatever privileges they may be permitted to enjoy. But the conditions on which the public money shall be deposited in the banks is a matter of detail that can be very easily so adjusted as to prevent the banks from securing an undue advantage therefrom.

When we come to the consideration of the matter of prompt payment of government drafts by the banks, we meet with the first serious difficulty that Mr. Windom brought up in his criticism of the bank deposit system. "The difficulty which the Department has encountered during the past year in withdrawing a part of our present bank deposits, even by the careful and conservative methods adopted, and at times when there was no financial pressure, gives some conception of what those difficulties would be in making such withdrawals in time of stringency and commercial distress. The experiences of 1837 would be repeated, more or less, in every commercial crisis."¹ Secretary Windom gives no details of the difficulty to which he alludes here, but the remark undoubtedly points to some delay in honoring drafts, due to the difficulty experienced by some depositories in calling in their loans to meet the drafts without disturbing the money market. It is very possible that a bank, however safe, and however conservatively managed, might experience some embarrassment in meeting a sudden and unexpected draft, if the government were one of its largest depositors, and if the government deposits bore an undue proportion to the total deposits. And that the failure of a depository bank to respond promptly to a Treasury draft might cause difficulty to the government is undeniable, and renders necessary some assurance of the certainty of prompt payment. "It has chanced that, singly, national bank depositories have failed to meet the drafts of the government upon them, to its embarrassment. Greatly more so would it be if all or many should so fail together, and together should have in keeping, in main, the assets of the government."²

¹ Windom, Report, 1890, p. xlv.

² Secretary C. J. Folger, Report, 1882.

The withdrawal of public deposits from the banks is likely, too, to have a disturbing effect on the money market. On the 22d of November, 1889, there was a rumor on Wall Street that Secretary Windom intended to withdraw the government deposits from those banks which had charged rates for money higher than the legal rate of six per cent. In consequence of the rumor, and of the anticipated difficulty of getting money, call loans rose to twenty per cent.¹

The difficulty of withdrawal would be much increased by the occurrence of a crisis. Even with the more conservative banking methods which obtain to-day, there would be some ground for fearing a recurrence of the experience of 1857. In that year "the effort of the government to withdraw its deposits and get control of its funds was felt as an additional blow aimed at the banks. Every dollar which could thus be drawn from the vaults of the banks diminished to that extent their ability to afford relief to their customers. Their loans had to be contracted, and the demand made by them upon their debtors for settlement increased the pressure already felt in the money market, and thereby added to the general panic and want of confidence which are the usual attendants of a monetary crisis."²

It is undeniable that the government is in greater danger of embarrassment in meeting its obligations promptly if its money is in the banks, than if the money is in its own keeping. The provision for prompt payment is the very difficulty to be overcome in the use of the banks, and to say that the bank deposit system might cause embarrassment by lack of promptness is, therefore, only to

¹ *Commercial and Financial Chronicle.*

² Finance Report, 1857, p. 20.

state the problem to be solved; and in view of the possibility of danger, the advocates of the use of banks must propose some means that will insure promptness in honoring drafts. For we cannot surrender the certainty of promptness in payment, much less safety to the public money, for the sake of less friction in the money market. Here, then, is the root of the difficulty,—to avoid arbitrary variations in the amount of money afloat, through the operations of the government, while yet securing the safety of the public money and its prompt payment on demand; in other words, to retain safety and secure elasticity.

It is to be noted, however, that the difficulty of insuring prompt withdrawals of public deposits without greatly disturbing the money market is due largely to the Independent Treasury itself. It is well known that the money taken out of the banks, or, what is the same thing, from the channels of business, is, under our Sub-Treasury system, likely to be locked up for a time in the government vaults. Especially is this true when the revenues of the government are greater than its expenses. This fear of a contraction of the currency is, in part at least, the cause of the disturbance which sends the rate of discount up, as happened on the occasion we have mentioned, November, 1889.¹ This difficulty would be at least less likely to occur, and the disturbance would be much less, if it were certain that the draft on the banks were simply to be a transfer of money from one part of the business community to another, as would be the case if the government immediately paid out the money which it withdrew. Hence the objection that the use of banks causes disturbance of the money market when drafts are

¹ See above, p. 244.

made on the deposits they hold, militates, like most of the others considered, not so much against the use of banks as depositories, as against the present method of using them, or against some of the conditions under which they are used.

Still another real difficulty in the use of the banks as the only public depositories, is that of providing against stringencies, crises, and panics. A reserve is needed somewhere, as has been said, and, in the opinion of many, the government might just as well keep it as the banks. "A heavy surplus in the Treasury is the best backbone the banks can have; commerce demands a strong reservoir which the banks are not always able to supply; it gives confidence in *panics*, and *relief* in times of stringency; a depleted Treasury would mean over-strained banks."¹ It has been correctly argued by some that the placing of the government deposits in the banks would not prevent the occurrence of monetary stringencies, and would not furnish a remedy for them when they did occur. For the banks would lend the deposits, and no reserve would be left in this case, any more than there is in the banks when a crisis occurs under present circumstances. Of course, the most obvious reply to this criticism is that if the banks are well managed they will always be prepared for a crisis. But the fact remains that some banks are not always well managed, and there is no reason to think that if the public money were all intrusted to them, they would regard themselves as any more responsible than they do now for making the preparations necessary to meet a crisis. And as long as some banks pursue vicious methods the safety of all is more or less endangered thereby; for the

¹ President Murray at meeting of American Bankers' Association, October, 1888.

competition for business must under such circumstances tend to relax the strictness of the rules of sound banking. That the more carelessly conducted banks do, in the opinion of sound bankers, bring on some such a condition of affairs is proven by the necessity which the conservative banks of New York have several times been under of pooling their reserves with the weaker banks for the issue of clearing-house certificates. It has several times occurred that the better banks have been forced to this action because the downfall of the institutions whose vicious banking had helped to demoralize the market would have put the better banks themselves in jeopardy. The vain attempts that have several times been made to induce the New York City banks to pledge themselves against such vicious practices as over-certification of checks, and the payment of interest on balances, is proof enough that there are some parts of our bank management that need strengthening. It is unfortunate that, while the great majority of our banks are conducted on sound principles, and conservatively managed, it should be possible for a few over-greedy-institutions to introduce into the monetary world an element of danger. None appreciate the evil of this state of affairs more keenly than do conservative bankers, and none are more severe in their condemnation of the practices that make it possible. The possibility of its occurrence, however, makes it necessary that in case the government should intrust the banks with its deposits, some means should be adopted to root out the censurable practices that are a source of danger.

There is another possible difficulty which appertains rather to the present conditions of the use of banks than

¹ See, for example, the report of the Clearing House Committee, 1873.

to that use itself. The inelastic character of our paper money tends, as we have seen,¹ to keep the volume of currency in the channels of trade at the maximum needed when business is brisk. Now, if the government deposited all its receipts in the banks, these institutions would have, in dull times, more money than they could profitably use. This would drive them to seek opportunities to loan, would make competition to discount even more keen than it is, and might induce unhealthy speculation by forcing down the rate of discount. Such speculation would endanger deposits. It could not produce an inflation from the issue of notes, as it did in 1837, unless the rate of discount charged were high enough to offset the premium on government bonds, and so induce deposits of bonds for circulation. The inflation would, however, be promoted by loans from the deposits; but it would also be limited by the law which forbids discounts to more than double the paid-up capital. It would not be possible, then, under the most adverse circumstances for speculation to enlarge loans so disastrously as was the case in 1837, when the paper issue was based on deposits, and that, too, at a rate which was not limited by a conservative percentage of reserve. The danger from speculation, caused by the use of government deposits in dull times, could not, therefore, be great.

Another disadvantage that would come from supplanting the Independent Treasury with banks, as the banks are at present regulated, arises from the fact that the banks cannot, under the law, use to check crises the power that is afforded by a variable rate of discount, except up to the point which the law fixes as a maximum, usually six per cent. This method of controlling crises

¹ See p. 146.

is, therefore, largely beyond their reach, and its absence is only partly made up for by the common devices for evading the usury laws. This, however, like several other objections, amounts only to a criticism of the present conditions governing the use of banks as public depositories.

The conclusions of our consideration of the disadvantages which would follow a larger use of banks, are that the most important objections, the principal things that must be provided against if the banks are to be more fully utilized, are the possibility of failure to honor drafts promptly, and the lack of any special provision for crises. Provision should be made also for a greater elasticity of the currency, for insuring the continued safety of the public deposits, and for preventing the banks from getting an undue share of profit from use of them.

But the question arises, — What kind of banks are best suited for use as government depositories? Shall the national banking system continue to be used? Or will State institutions answer the purpose better? Or shall some entirely new institution be created? Various answers have been given to these questions. Some have advocated simply an enlarged use of the national banks under existing laws. But as the preceding examination has disclosed, this would make no provision for insuring prompt payment of government drafts, or for tiding over stringencies in the money market. Various modifications of our banking system have been proposed, the establishment of which would insure greater elasticity to our currency than the arbitrary workings of the Independent Treasury produce, while yet leaving that system in operation. Of course, the attainment of this end, though only a partial cure, would be very beneficial.

As early as 1871 a plan was proposed for the relief of stringencies and crises, known as the "3.65 bond plan." The proposal¹ was for the government to issue convertible bonds at 3.65 per cent interest. These were to be issued at par, and cashed at par on demand, and were to be made usable for bank reserves. When the money market became stringent these bonds "would go in for cash, and on an easy money market they would flow out again." The objections to this scheme are so great that it is altogether unlikely that it could be adopted. The arguments against the proposed issue are that it would be a virtual inflation of the currency, would compel the government to pay interest on the bank reserves, and would necessitate a change in our policy of debt payment.

In 1873 a scheme for securing elasticity was proposed by the committee on banking and coinage in the House of Representatives, the main features of which were as follows:² first, that all legal restrictions on bank currency should cease; second, that bank-notes should be promptly redeemed through an assorting-house in Washington, with a branch at New York, whereby the notes should be sent home for redemption daily; third, that each bank must deposit in the United States Treasury a reserve of greenbacks equal to five per cent. of its outstanding notes; and, fourth, that the banks should be relieved from the obligation to keep fifteen or twenty-five per cent. of reserve on their circulation. This last clause was incorporated in the act of June 20, 1874, amending the national banking law; but the bill, as a whole, did not become a law.

¹ For an account of the plan see Hunt's *Merchants' Magazine*, Year Book, 1871, p. 224.

² See the *Commercial and Financial Chronicle*, Dec. 13, 1873.

The Hon. John Jay Knox, Comptroller of the Currency in 1876, and afterwards president of the National Bank of the Republic, New York City, advocated a plan for a permanent national bank circulation,¹ the provisions of which would have promoted a greater elasticity if it had been adopted. Its chief novel feature was a provision that circulating notes should be secured, partly by deposit of bonds and bullion, and partly by a safety fund.

Still another scheme has been suggested, the direct purpose of which is the partial removal of the injurious influences of the Independent Treasury. It has been proposed to deposit the money of the government in the national banks in response to bids therefor from the banks.² The Secretary of the Treasury, according to the plan, would advertise for such bids, securing the publication of the rates of interest offered on the deposits by different banks, the security offered, and the amount of deposit wanted. The money would then be deposited with the highest bidder. There are various objections to such a plan. If the bank offering the best rates did not want all the money the government desired to deposit, it would be unfair to compel it to adhere to its rate for the part assigned to it, while letting the rest go to other bidders at lower rates. Moreover, the competition engendered would act unfavorably when money was "dear," by tending to influence the banks to offer higher rates than they could really afford, and by tending to promote speculation so as to secure returns to pay those higher rates. Banks with large capital and surplus could, if caught in difficulty, secure the deposits to the injury of smaller banks, and an abnormal distribution of currency might

¹ See H. R. Bill 5,180, 1st Session, 51st Congress, 16th Jan., 1890.

² See *Bankers' Magazine*, July, 1891.

temporarily be caused. The special purpose of the plan seems to be to provide for remuneration for the use of public money. That is desirable, but it can be secured in other ways that shall also secure other results of greater importance.

The most systematic and exhaustive scheme that has been proposed for replacing the Independent Treasury system is made by the Hon. Conrad N. Jordan of New York City, who was treasurer of the United States in 1885-86. The important parts¹ of Mr. Jordan's plan are as follows: He would have Congress establish an "Associated National Bank" in New York City, the stock in which should be held by the banks of the country, both State and National, which should be the central depository of the government, and on whose capital, together with that of the subscribing banks, the deposits of the government should be made a preferred lien. This bank should not issue notes, according to Mr. Jordan, except in crises, and then only when the rate of interest in New York City reached eight per cent. The bank should pay all government "interest, receiving such compensation therefor as may be agreed on; shall register the debt of the United States; [and] shall do a general banking business, except that it shall not receive the deposits of persons or firms other than banks or bankers." The Associated Bank shall, under certain regulations, perform the redemption duties now performed in the office of the Comptroller of the currency. All government receipts in New York City should be deposited in the Associated Bank, and the receipts at all other points in the different national banks, under the direction of the Associated Bank, and if any receives an excess of deposits over security

¹ See Appendix, p. xiv. for the full text of Mr. Jordan's plan.

provided, it must immediately forward the excess to the Associated Bank. The Associated Bank, Mr. Jordan thinks, should be further permitted, or empowered, to have foreign accounts, and to transact a general exchange business, and should keep fifty per cent. reserve on all liabilities, twenty-five per centum of which might be in "sight exchange on London, Paris, Amsterdam, Frankfurt, or Berlin." Other provisions are for a variable rate of discount at the discretion of the board of directors, for the issue of small notes based on silver, and of notes to replace national bank notes that failed to be redeemed, and for securing a fair compensation to the government for the privileges granted the bank. The national banks should be allowed to extend their issues to any amount on the deposit of coin and bullion. The Secretary of the Treasury should, under this system, "be empowered to issue Treasury warrants or bills at such rate of interest as may be agreed upon from time to time, to meet any sudden emergency, and be accountable to the House of Representatives as to the necessity for such issue."

The ingenious plan thus briefly outlined, if put in operation, would undoubtedly go far towards remedying the evils to which the Independent Treasury gives rise. The security provided for the public deposits is of the same kind as is demanded now, and is ample to insure their ultimate safety; but no better provision is made than now exists for preventing delay in meeting drafts of the government. The provision that one-half the reserve may be in "sight" foreign exchange, while an excellent thing for giving the bank a certain control over the drain of gold, would prove dangerous if the houses on which the bills were drawn should be suffering from a crisis too. Drafts on the Barings in the fall of 1890 would

not have strengthened confidence in New York at that time.

There is ground, too, for objection to the issue of notes by this bank in crises, because the currency would be an unusual one, a new kind added to the numerous kinds of paper already afloat, whereas the purpose of their issue could be as well accomplished by a temporary enlargement of the currency already in use.

Moreover, meritorious as the scheme of Mr. Jordan is, there is ground for objecting to it because it proposes the establishment of novel machinery for accomplishing what can be done through agencies already established, by making changes to adapt them to the new requirements.

The agencies that should be used for doing the work of the Independent Treasury, to do away with its evils and to render whatever advantages it has more uniform and general, are the banks and the various clearing-houses. These are institutions already established, and familiar to the people, and they could be adapted to their proposed new functions without great changes. They are the most convenient means for keeping the public deposits, because they are the money reservoirs of business; and their use as depositories would prevent the tapping, so to speak, of the streams of money that flow to and from them. The public money would be at the call of the government, and would yet be available in business to a large extent.

The banks are the best agents for the management of crises also. Under the existing arrangements the question whether aid shall be extended to relieve a crisis or avert a threatened panic is decided by the Secretary of the Treasury. That is, the decision as to whether the

state of the market is such as to foreshadow a panic and necessitate such a course of action, depends on the judgment of one man, who is not in direct touch with the business situation, who is at a distance from the great money market of the country, and for whom the duty of making such a decision is, so to speak, incidental. In order to be able to act intelligently at such a time the Secretary of the Treasury must keep well informed on the state of the money market, must judge correctly of the necessity and the time for action, and must be able to select the mode of disbursement best fitted to accomplish the purpose of furnishing full and immediate relief. The necessity of fulfilling these conditions "makes the will and judgment of the Secretary of the Treasury at times a potent factor in business." The time and conditions to discount a panic can be better known to an individual who is in close touch with the business community, or rather is himself a part of that community; and they can be still better known to a number of such individuals, or combinations of such individuals. The banks, in short, constitute the best agents for the purpose. They have the requisite knowledge, the necessary business relations, and a sensitiveness to the state of business soundness that no other individual or institution possesses. They feel immediately any change in trade that indicates abnormal conditions. And, finally, they are the agents to which the community naturally looks to regulate the monetary situation in a crisis. It is one of their functions, the performance of which is part of the normal action of the business machinery of the community. The action of the government in the relief of a crisis is, on the other hand, an arbitrary action, one not automatically responsive to the conditions it seeks to meet. Such an

action may, however, prevent much evil, and be the occasion of much good; but a continued resort to it can be justified only if no other course is open that will produce the same results, and at the same time be free from arbitrariness.

Hence, the government cannot be expected to exercise so salutary a control over the flux and reflux of the money market as can the banking institutions of the country, if they are conducted on sound principles and with ordinary business intelligence and integrity. To the banks, therefore, should be intrusted the keeping of the public money and the direct management of crises.

CHAPTER IX.

A REORGANIZATION OF THE BANKING SYSTEM
TO REPLACE THE INDEPENDENT TREASURY.

THE opinion was expressed in the preceding chapter that the banks and the clearing-houses are the proper institutions for keeping the government deposits and for managing crises. The statement can be narrowed somewhat, so as to apply only to the *national* banks and the clearing-houses. It is not necessary to discuss here the comparative merits of National and State banks. But only the national banks should be used, because they are the only ones over which the national government can exercise direct control. The national banking system has faults, but it has served its purpose of furnishing a uniform and safe currency so long that it ought to be preserved. Its failure to make our currency elastic is due in part to unwise regulations regarding the security and redemption of notes, and to limitations on the use of the reserve; but more so to other, independent, features of our currency system, especially the use of government notes, and our silver policy. But these are defects that can be remedied.

Any proposal for a more extended use of the national banks as public depositories, and for enlarging their functions as regulators of the currency, must, of course, have in view the fact that in a few years more the system will pass out of existence, and must, therefore, include

some suggestions for its perpetuation in some form. The plan about to be outlined assumes that the national banking system will be continued. There is really no good reason why it should be allowed to disappear, for the only condition affecting its existence which will soon change is the extinction of the national debt. But it is difficult to see what valid objection can be made to basing the circulation on other than government bonds. The law permits the Secretary of the Treasury to accept other than United States bonds as security for public deposits; if there are other bonds which in the opinion of Congress are sufficiently secure for that purpose, it may fairly be assumed that Congress should consider the same kind of bonds a sufficient surety for bank issues. Railroads or municipal bonds of high character would be a safe basis for circulating notes, if their acceptance were subject to such conditions¹ as were proposed by the Hon. M. D. Harter of Ohio, in Congress, in the session of 1891-92. These conditions are substantially, that the bonds shall be gold bonds that have not fallen below par for several years preceding their acceptance as security, are secured by mortgage on road-bed and track, if they are railroad bonds, the interest on which has never been defaulted and which are regularly listed on some important stock exchange. If city bonds are accepted, the tax levy of the municipality issuing them must not exceed two per cent. per annum. Bonds of such character, with proper regulations for replacing them if they depreciated, would furnish ample security. Premising, then, that the national banking system will be continued by some such provision as this, it seems that the Independent Treasury, with its bad influence on the money market, could be replaced with

¹ Mr. Harter's proposals are given in full in Appendix, p. ix.

the banks as depositories, by modifying the banking laws in accordance with the following suggestions:—

Provisions for Deposits.

1. Make the clearing-houses of the four or five most important cities in different sections of the country agents of the government in its relations with the banks, dividing the country into departments, and putting one of the clearing-houses at the head, for government business, of all the banks in a department.

2. Require every national bank to become a member of the clearing-house in its section or department.

3. Deposit all government money in the national banks, with the exceptions noted below, and require all government receipts and payments to pass through these banks, as far as possible, on these conditions:—

a. The bank seeking to become a government depository shall deposit with its clearing-house, bonds of the character required as security for circulation, of such amount as in the discretion of the secretary may be required, but never to be suffered to become less than the par value of the amount of public money held by the bank.

b. The clearing-house shall have the right to reject, under general rules adopted by all the clearing-houses and approved by the Secretary of the Treasury, any of the bonds offered that it deems unsafe, and shall then forward those deemed safe to the United States Treasurer at Washington.

c. On receipt of these bonds by the treasurer, the bank shall, on the order of the treasurer, receive a deposit of public money from its clearing-house, if there

is a surplus there, or else by transfer from any department where a surplus lies, and shall also be appointed a collector and disburser of public money under proper regulations.

d. All depository banks shall make daily reports to their respective clearing-houses, and the clearing-houses to the Secretary of the Treasury.

e. Any loss to the government from false returns or from depreciation of the bonds deposited shall be made good by the clearing-house; that is, by the banks associated therein, provided that the Secretary of the Treasury notify the clearing-house of such depreciation within a reasonable time after it occurs.

f. All drafts for government money shall be made directly on the banks. If any bank fails to pay a draft on demand, the clearing-house shall pay it on demand, and any other national bank may at its discretion do so, and shall then be reimbursed, on presentation of the draft with proof of its dishonor, for the principal, costs, and interest, by the clearing-house of the department in which the defaulting bank is situated.

g. If on any day a depository bank receives a surplus of public money over the par value of its bonds deposited, it shall immediately deposit more bonds, or shall transfer the surplus on the order of the Secretary of the Treasury to some other bank whose deposit of bonds exceeds in value its holdings of public money; or, if there is no such bank in the department, the secretary shall order the money to be transferred to the clearing-house, there to be held as a special deposit, sealed under the seal of some proper officer of the United States, to be opened again only in his presence, on order of the Secretary of the Treasury, for transfer to some bank, or to

some other clearing-house department, or to the United States Treasury at Washington.

h. Transfers of surpluses may be made by the Secretary of the Treasury from one clearing-house to another for distribution among the depository banks, on the deposit of bonds, as before provided. If there are not enough government receipts to meet the demand for deposits in any section, the Secretary of the Treasury may make transfers to such as offer a premium for the deposit, in addition to the usual security.

i. If a surplus of earnings remains after the payment of an annual dividend of [six]¹ per cent. on capital, and the assignment of the required quota to the surplus and redemption funds, the government shall be credited with part of said surplus in the ratio which its average monthly deposits for the year have borne to the total cash deposits.

4. All government money shall be deposited in the banks in accordance with the foregoing provisions, except the \$100,000,000 of gold commonly known as the "greenback reserve," and the gold and silver bullion on deposit to secure coin and bullion certificates.

Provisions for Elasticity of the Currency.

1. Circulating notes should be issued on deposit at Washington of such bonds as have already been described, or of gold and bonds, and the amount of issue should be the par value of the deposit.

2. In a crisis each bank should be allowed to expand its issue of notes [twenty-five] per cent over the par value of the security deposited, provided the bonds do not fall

¹ The brackets are used to show that the amounts suggested are tentative.

below par on account of the crisis; and each bank should also be allowed to deposit gold coin or bullion as a basis for the further issue of notes in the same ratio, to be held on special deposit at its clearing-house for the purpose of redemption. In order to avoid delay in a crisis each bank should at all times keep at its clearing-house, on special deposit, a certain amount of extra notes. These notes should be sealed away under the seal of a United States inspector, and an account of them should at all times be kept with the Treasurer of the United States.

3. Permission to use these extra notes for the purpose of the expansion just spoken of must be secured from the Secretary of the Treasury, and the Secretary shall give such permission under the following circumstances, and then only:

a. He must have received from the clearing-house notification of the necessary deposit.

b. The rate of discount on call loans in New York City must have reached [eight] per cent.

4. All net profit over [one] per cent. accruing from this extra issue of notes must be credited to the government.

5. No bank shall discount below [eight] per cent. while any notes of this extra issue are outstanding, and any bank may offer a premium on such notes, in order to call them in. If any of them are outstanding at the end of one month, the bank may be required, at the discretion of the Secretary of the Treasury, to deposit gold coin or bullion to cover the excess, and at the end of two months such deposit shall be required.

6. All the usury laws of the States should be repealed, so far, at least, as they relate to short-time loans, and no

national bank should be allowed to make discounts for a longer time than [six months].

7. The payment of interest on deposits should be forbidden; and the law which allows deposits of country banks in banks of reserve cities to count as part of the reserve of both should be repealed.

8. Every national bank should be forbidden to pay out the notes of any other, but should be compelled to receive them at par and forward them to its clearing-house for redemption.

9. Each bank should keep at its clearing-house a redemption fund equal to [five] per cent. of its circulation. If any bank should fail to redeem a note of its own issue on demand, the holder may seek its payment by either of the methods provided for the payment of government drafts,¹ and the defaulting bank shall immediately be put into the hands of a receiver, and its affairs wound up.

10. A reserve of at least [twenty] per cent. of deposits should always be kept on hand, except as follows: When the discount rate on call-loans at any of the central cities in which the clearing-houses are situated rises to [ten] per cent., the reserve of any bank in that department may be allowed to fall to [fifteen] per cent. of its total deposits.

11. In a crisis clearing-house certificates may be issued subject to the regulations which now govern their issue in New York City.

There is nothing in these proposals that involves a wide departure from institutions and methods already familiar, and they provide for the ultimate safety and the prompt payment of the public deposits, for expansion of the currency in crises, for the prevention of congestion of money at great centres, and for variation in the volume of bank currency in response to business demands.

¹ See Section f., p. 260.

No mention is made in them of "lawful money" other than gold as a provision for reserve. It would be a great precaution for future safety if the existing government notes were retired and their place supplied by bank currency.¹ In that event the banks should be taxed so as to secure for the public as much as possible of the net profit, allowing for trouble and expense, derived from the issue of the notes. The currency of the country would then be more elastic, because more purely commercial. Under these circumstances the national bank issues would doubtless be sufficient to meet all demands for money, but there would be no objection to allowing the State Banks again to become banks of issue, if it were necessary. For their notes would not be likely to attain, under the competition of the national banks, a wide circulation; and under that competition would not attain any circulation at all unless always redeemable at par, provided denominations were not allowed smaller than, say, twenty dollars. For these would not get largely into the hands of ignorant people who might hoard them and in so far diminish the demand for frequent redemption which would make the banks careful. But if the State banks were allowed to issue notes, other restrictions than the limitation of notes to denominations not less than twenty dollars should be imposed. They should be required to keep a larger proportionate percentage of reserve against their deposits and issues than the national banks would be required to keep against their deposits. This could be accomplished by allowing a certain minimum of issue for capital, and then taxing the notes at a rapidly increasing rate as their ratio to the reserve increased.

¹ Of course United States notes, as at present regulated, are safe and very convenient. The only danger is in a possible future over-issue.

The putting of the above proposals into practice would involve giving the clearing-houses the character of branches of the Treasury Department. This division of their work should be additional to their present functions, and need not interfere with these at all. The government division of each clearing-house should be under the immediate management of some officer corresponding to the present assistant treasurers. The central cities at which these government clearing-houses should be located might well be New York, Chicago, New Orleans, and San Francisco. Perhaps it might be advisable to add St. Louis and one other centre.

The use of the clearing-houses in this way would involve a saving of a large part of the cost of the existing sub-treasuries, and so reduce the expenses of the government.

The union of all the national banks in each section in the manner proposed, would give them a unity of interests that would cause them to guard jealously against vicious methods of business by any one bank. The members of each clearing-house should be able by a proper vote to coerce a bank that indulged in bad banking practices.

The provisions for the safety of the public deposits are ample, for only bonds of first-class character would be accepted, and only after receiving the approval of both the clearing-house officers and the Secretary of the Treasury. These officers would be likely to have a wider acquaintance with the character of the bonds offered than would the Secretary, and consequently their approval would be a great safeguard. An additional one would be found in the daily reports to both the clearing-house and the Secretary. Moreover, the whole assets of the

banks associated in the clearing-house would be behind the government deposits as ultimate security. Loss would be impossible.

Promptness of payment of government drafts would also be abundantly secured. For the failure of the bank on which the draft was drawn would necessitate only the delay of presenting it to another bank, or, at farthest, to the clearing-house. Payment under such circumstances now must be delayed until after the sale of the bonds deposited.

Moreover, the provisions for the deposit of public money make the amount of such deposits at any time depend entirely on the demand of the banks. Hence, when there was an active demand for money, the government money would flow from the clearing-houses, where it was on special deposit, to the banks, where it would be accessible to business.

Still again, the provisions for transfers to meet demand would afford a better distribution of the money than is now the case.

As long as the government issues notes it should itself keep the reserve on which they are based. Hence, the "greenback reserve" should remain in the hands of the government. Moreover the banks could not be allowed to use it, and therefore would not want it. The government should either protect its own notes or withdraw them. These remarks apply to coin and bullion certificates also.

The provisions suggested for frequent redemption, and for depriving the bank notes of their legal-tender character in payments from any of the banks, would, together with the prohibition of interest on deposits, accomplish a threefold purpose. They would furnish an extra safe-

guard for the notes, would keep the volume of notes always close to the demand for loans, and would prevent a congestion of money at great money centres in dull seasons.

In a crisis there would be three steps for the enlargement of the volume of currency, which would serve as successive barriers to the rise of a feeling of panic from a dearth of money. First, the banks could expand their circulation to a considerable extent while yet having all reasonable regard for the safety of the notes; second, they could draw to a certain extent on their reserves; and, third, if necessary, clearing-house certificates could be resorted to, as now. A smaller percentage of reserve would be necessary for each bank because of the abolition of the law permitting the same money to count as reserve for two banks in certain cases. The abolition of this law would also tend to prevent congestion of money. And the reserve should be available in a stringency; it is of the very nature and purpose of a reserve that it should be used to allay a feeling of alarm; and the fixing of a hard and fast line, below which the banks may not go, is a source of danger when the reserves fall to an amount near the fixed line. Yet it would be undesirable to remove the limit altogether. Hence it is suggested that it be lowered in crises.

The extra notes issued during a crisis could not become a source of inflation, because the provisions made would insure their retirement within a short time; a bank would have no object in depositing gold for the sake of keeping out an equal amount of notes.

The repeal of the usury laws at least to the extent suggested would give the banks a further control over the market in crises from the use of a variable rate of dis-

count. This power would also serve to protect our gold balance from exportation.

Provision is made also to prevent the banks from getting too large a profit from any of the proposed new relations. Of course they would not and could not be expected to do the business of the government for nothing, and if the incidental advantages that would flow from the use of the government deposits did not suffice to pay them for the trouble and expense of managing these deposits, they would have to get direct remuneration. All that can be fairly asked is that they shall not receive an undue advantage. The spirit of prejudice against the banks as such is altogether unreasonable and indefensible.

If the government should enter into some such relations with the banks as have been outlined, many benefits would accrue to it. It could rely on the banks for aid in temporary deficits; it would have a ready means of raising money quickly in a sudden emergency; it would avoid much expense, and it could secure more convenient arrangements for the collection and payment of its dues, and so accommodate the public in their relations of taxpayers and public creditors.

Finally, the adoption of this, or some similar plan, would put an end to the injurious influence on the business of the country which the action of the Independent Treasury has so long exercised, and which increases as the years pass by. The time has come for the adoption of a more enlightened system.

APPENDIX.

I.

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II.

A.

SUB-TREASURY LAW, AND AMENDMENTS.

“ An Act to provide for the better organization of the Treasury, and for the collection, safe-keeping, transfer, and disbursement of the public revenue.”

“ WHEREAS, by the fourth section of the act entitled ‘ An Act to establish the Treasury Department,’ approved September second, seventeen hundred and eighty-nine, it was provided that it should be the duty of the Treasurer to receive and keep the moneys of the United States, and to disburse the same upon warrants drawn by the Secretary of the Treasury, countersigned by the Comptroller, and recorded by the Register, and not otherwise; and whereas it is found necessary to make further provisions to enable the Treasurer the better to carry into effect the intent of the said section, in relation to the receiving and disbursing the moneys of the United States, Therefore: —

SEC. 1. *Be it enacted by Senate and House of Representatives of the United States of America in Congress Assembled,* That the rooms prepared and provided in the new Treasury building at the seat of Government for the use of the Treasurer of the United States, his assistants and clerks, and occupied by them, and also the fire-proof vaults and safes erected in said rooms for the keeping of the public moneys in the possession and under the immediate control of said Treasurer, and such other apartments as are provided for by this act as places of deposit of the public money, are hereby constituted, and declared to be, the Treasury of the United States. And all moneys paid into

the same shall be subject to the draft of the Treasurer, drawn agreeably to appropriations made by law.

SEC. 2. *And be it further enacted*, That the mint of the United States, in the city of Philadelphia, in the State of Pennsylvania, and the branch mint in the city of New Orleans, in the State of Louisiana, and the vaults and safes thereof respectively, shall be places of deposit and safe-keeping of the public moneys at these points respectively; and the treasurers of the said mint and branch mint respectively, for the time being, shall be assistant treasurers under the provisions of this act, and shall have the custody and care of all public moneys deposited within the same, and shall perform all the duties required to be performed by them, in reference to the receipt, safe-keeping, transfer, and disbursement of all such moneys, according to the provisions hereinafter contained.

SEC. 3. *And be it further enacted*, That the rooms which were directed to be prepared and provided within the custom-houses in the city of New York, in the State of New York, and in the city of Boston, in the State of Massachusetts, for the use of receivers-general of public moneys, under the provisions of the act entitled, "An Act to provide for the collection, safe-keeping, transfer, and disbursement of the public revenue," approved July fourth, eighteen hundred and forty, shall be for the use of the assistant treasurers hereinafter directed to be appointed at those places, respectively; as shall be also the fire-proof vaults and safes prepared and provided within said rooms for the keeping of the public moneys collected and deposited with them, respectively; and the Assistant Treasurers from time to time appointed at those points, shall have the custody and care of the said rooms, vaults, and safes, respectively, and of all the public moneys deposited within the same, and shall perform all the duties required to be performed by them, in reference to the receipt, safe-keeping, transfer, and disbursement of all such moneys, according to the provisions of this act.

SEC. 4. *And be it further enacted*, That the offices, with suitable and convenient rooms, which were directed to be erected,

prepared, and provided for the use of receivers-general of public money, at the expense of the United States, at the city of Charleston, in the State of South Carolina, and at the city of St. Louis, in the State of Missouri, under the act entitled, "An Act to provide for the collection, safe-keeping, transfer, and disbursement of the public revenue," approved July fourth, eighteen hundred and forty, shall be for the use of the assistant treasurers hereinafter directed to be appointed at the places above named; as shall be also the fire-proof vaults and safes erected within the said offices and rooms for the keeping of the public money collected and deposited at those points, respectively; and the said assistant treasurers from time to time appointed at those places, shall have the custody and care of the said offices, vaults, and safes, erected, prepared, and provided as aforesaid, and of all the public moneys deposited within the same, and shall perform all the duties required to be performed by them, in reference to the receipt, safe-keeping, transfer, and disbursement of all such moneys, according to the provisions hereinafter contained.

SEC. 5. *And be it further enacted*, That the President shall nominate, and, by and with the advice and consent of the Senate, appoint four officers, to be denominated "assistant treasurers of the United States," which said officers shall hold their respective offices for the term of four years, unless sooner removed therefrom; one of which shall be located at the city of New York, in the State of New York; one other of which shall be located at the city of Boston, in the State of Massachusetts; one other of which shall be located at the city of Charleston, in the State of South Carolina; and one other at St. Louis, in the State of Missouri; and all of which said officers shall give bonds to the United States, with security according to the provisions hereinafter contained, for the faithful discharge of the duties of their respective offices.

SEC. 6. *And be it further enacted*, That the Treasurer of the United States, the Treasurer of the mint of the United States, the treasurers, and those acting as such, of the various

branch mints, all collectors of the customs, all surveyors of the customs acting also as collectors, all assistant treasurers, all receivers of public moneys at the several land offices, all postmasters, and all public officers of whatsoever character be, and they are hereby, required to keep safely, without loaning, using, depositing in banks, or exchanging for other funds than as allowed by this act, all the public money collected by them, or otherwise at any time placed in their possession and custody, till the same is ordered by the proper department or officer of the Government, to be transferred or paid out; and when such orders for transfer or payment are received, faithfully and promptly to make the same as directed, and to do and perform all other duties as fiscal agents of the Government which may be imposed by this or any other acts of Congress, or by any regulation of the Treasury Department made in conformity to law; and, also, to do and perform all acts and duties required by law, or by direction of any of the Executive Departments of the Government, as agents for paying pensions, or for making any other disbursements which either of the heads of those Departments may be required by law to make, and which are of a character to be made by the depositaries hereby constituted, consistently with the official duties imposed upon them.

SEC. 7. *And be it further enacted*, That the Treasurer of the United States, the Treasurer of the mint of the United States, the Treasurer of the branch mint at New Orleans, and all the assistant treasurers hereinbefore directed to be appointed, shall respectively give bonds to the United States faithfully to discharge the duties of their respective offices according to law and for such amounts as shall be directed by the Secretary of the Treasury, with sureties to the satisfaction of the Solicitor of the Treasury; and shall, from time to time, renew, strengthen, and increase their official bonds, as the Secretary of the Treasury may direct, any law in reference to any of the official bonds of any of the said officers to the contrary notwithstanding.

SEC. 8. *And be it further enacted*, That it shall be the duty of the Secretary of the Treasury, at as early a date as possible

after the passage of this act, to require the several depositaries hereby constituted, and whose official bonds are not hereinbefore provided for, to execute bonds, new and suitable in their terms, to meet the new and increased duties imposed upon them respectively, by this act, and with sureties, and in sums such as shall seem reasonable and safe to the Solicitor of the Treasury; and, from time to time, to require such bonds to be renewed and increased in amount, and strengthened by new sureties, to meet any increasing responsibility which may grow out of accumulations of money in the hands of the depositary, or out of any other duty or responsibility arising under this or any other law of Congress.

SEC. 9. *And be it further enacted*, That all collectors and receivers of public money, of every character and description, within the District of Columbia, shall, as frequently as they may be directed by the Secretary of the Treasury or the Postmaster-General so to do, pay over to the Treasurer of the United States, at the Treasury, all the public moneys collected by them, or in their hands; that all such collectors and receivers of public moneys within the cities of Philadelphia and New Orleans, shall, upon the same direction, pay over to the Treasurers of the mints in their respective cities, at the said mints, all public moneys collected by them, or in their hands; and that all such collectors and receivers of public moneys within the cities of New York, Boston, Charleston, and St. Louis, shall, upon the same direction, pay over to the assistant treasurers in their respective cities, at their offices, respectively, all the public moneys collected by them, or in their hands, to be safely kept by the said respective depositaries until otherwise disposed of according to law; and it shall be the duty of said Secretary and Postmaster-General, respectively, to direct such payments by the said collectors and receivers at all the said places at least as often as one in each week, and as much more frequently, and in all cases, as they in their discretion may think proper.

SEC. 10. *And be it further enacted*, That it shall be lawful for the Secretary of the Treasury to transfer the moneys in the

hands of any depositary hereby constituted to the Treasury of the United States, to be there safely kept, to the credit of the Treasurer of the United States, according to the provisions of this act, to any other depositary constituted by the same, at his discretion, and as the safety of the public moneys and the convenience of the public service shall seem to him to require ; which authority to transfer the moneys belonging to the Post-Office Department is also hereby conferred upon the Postmaster-General so far as its exercise by him may be consistent with the provisions of existing laws ; and every depositary constituted by this act shall keep his account of the money paid to or deposited with him, belonging to the Post-Office Department, separate and distinct from the account kept by him of other public moneys so paid or deposited. And for the purpose of payments on the public account, it shall be lawful for the Treasurer of the United States to draw upon any of the said depositaries, as he may think most conducive to the public interests, or the convenience of the public creditors, or both ; and each depositary so drawn upon shall make returns to the Treasury and Post-Office Departments of all moneys received and paid by him at such times and in such form as shall be directed by the Secretary of the Treasury or the Postmaster-General.

SEC. 11. *And be it further enacted*, That the Secretary of the Treasury shall be, and he is hereby authorized, to cause examinations to be made of the books, accounts, and money on hand, of the several depositaries constituted by this act ; and for that purpose to appoint special agents, as occasion may require, with such compensation, not exceeding six dollars per day and travelling expenses, as he may think reasonable, to be fixed and declared at the time of each appointment. The agents selected to make these examinations shall be instructed to examine as well the book, accounts, and returns of the officer, as the money on hand, and the manner of its being kept, to the end that uniformity and accuracy in the accounts, as well as safety to the public moneys, may be secured thereby.

SEC. 12. *And be it further enacted*, That in addition to the

examinations provided for in the last preceding section, and as a further guard over the public moneys, it shall be the duty of each naval officer and surveyor, as a check upon the assistant treasurers, or the collectors of the customs, of their respective districts; of each register of a land office, as a check upon the receiver of his land office; and of the director and superintendent of each mint and branch mint, when separate officers, as a check upon the treasurers respectively, of the said mints, or the persons acting as such, at the close of each quarter of the year, and as much more frequently as they shall be directed by the Secretary of the Treasury to do so, to examine the books, accounts, returns, and money on hand of the assistant treasurers, collectors, receivers of land offices, treasurers of the mint, and each branch mint, and persons acting as such; and to make a full, accurate, and faithful return to the Treasury Department of their condition.

SEC. 13. *And be it further enacted*, That the said officers, respectively, whose duty it is made by this act to receive, keep, and disburse the public moneys, as the fiscal agents of the Government, may be allowed any necessary additional expense for clerks, fire-proof chests or vaults, or other necessary expenses of safe-keeping, transferring, and disbursing said moneys; all such expense of every character to be first expressly authorized by the Secretary of the Treasury, whose directions upon all the above subjects, by way of regulation and otherwise, so far as authorized by law, are to be strictly followed by all the said officers: *Provided*, That the whole number of clerks to be appointed by virtue of this section of this act shall not exceed ten; and that the aggregate compensations of the whole number shall not exceed eight thousand dollars; nor shall the compensation of any one clerk so appointed exceed eight hundred dollars per annum.

SEC. 14. *And be it further enacted*, That the Secretary of the Treasury may, at his discretion, transfer the balances remaining with any of the present depositaries, to any other of the present depositaries, as he may deem the safety of the public money or the public convenience may require: *Pro-*

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vided, That nothing in this act shall be so construed as to authorize the Secretary of the Treasury to transfer the balances remaining with any of the present depositaries to the depositaries constituted by this act, before the first day of January next. And *provided*, That for the purpose of payments on public account, out of balances remaining with the present depositaries, it shall be lawful for the Treasurer of the United States to draw upon any of the said depositaries, as he may think most conducive to the public interests, or to the convenience of public creditors, or both.

SEC. 15. *And be it further enacted*, That all marshals, district attorneys, and others having public money to pay to the United States, and all patentees wishing to make payment for patents to be issued, may pay all such moneys to the Treasurer of the United States, to the treasurer of either of the mints in Philadelphia or New Orleans, to either of the other assistant treasurers, or to such other depositary constituted by this act as shall be designated by the Secretary of the Treasury in other parts of the United States, to receive such payments and give receipts or certificates of deposit therefor.

SEC. 16. *And be it further enacted*, That all officers and other persons charged by this act, or any other act, with the safe-keeping, transfer, and disbursement of the public moneys, other than those connected with the Post-Office Department, are hereby required to keep an accurate entry of each sum received, and each payment or transfer; and that if any one of the said officers or those connected with the Post-Office Department shall convert to his own use in any way whatever, or shall use, by way of investment in any kind of property or merchandise, or shall loan, with or without interest, or shall deposit in any bank, or shall exchange for other funds except as allowed by this act, any portion of the public moneys intrusted to him for safe-keeping, disbursement, transfer, or for any other purpose, every such act shall be deemed and adjudged to be an embezzlement of so much of the said moneys as shall be thus taken, converted, invested, used, loaned, deposited, or exchanged, which is hereby

declared to be a felony ; and any failure to pay over or to produce the public moneys intrusted to such person shall be held and taken to be *prima facie* evidence of such embezzlement, and if any officer charged with the disbursements of public money shall accept or receive, or transmit to the Treasury Department to be allowed in his favor, any receipt or voucher from a creditor of United States without having paid to such creditor in such funds as the said officer may have received for disbursement, or such funds as he may be authorized by this act to take in exchange, the full amount specified in such receipt or voucher, every such act shall be deemed to be a conversion by such officer to his own use of the amount specified in such receipt or voucher ; and any officer or agent of the United States, and all persons advising or participating in such act, being convicted thereof before any court of the United States of competent jurisdiction, shall be sentenced to imprisonment for a term of not less than six months nor more than ten years, and to a fine equal to the amount of the money embezzled. And upon the trial of any indictment against any person for embezzling public money under the provisions of this act, it shall be sufficient evidence, for the purpose of showing a balance against such person, to produce a transcript from the books and proceedings of the Treasury, as required in civil cases, under provisions of the act entitled, " An Act to provide more effectually for the settlement of accounts between the United States and receivers of public money," approved March third, one thousand seven hundred and ninety seven ; and the provisions of this act shall be so construed as to apply to all persons charged with the safe-keeping, transfer, or disbursement of the public money, whether such persons be indicted as receivers or depositaries of the same ; and the refusal of such person, whether in or out of office, to pay any draft, order, or warrant, which may be drawn upon him by the proper officer of the Treasury Department, for any public money in his hands belonging to the United States, no matter in what capacity the same may have been received or may be held, or to transfer or disburse any such money promptly, upon the legal requirement

of any authorized officer of the United States, shall be deemed and taken, upon the trial of any indictment against such person for embezzlement, as *prima facie* evidence of such embezzlement.

SEC. 17. *And be it further enacted*, That until the rooms, offices, vaults, and safes, directed by the first four sections of this act to be constructed and prepared for the use of the Treasurer of the United States, the treasurers of the mints at Philadelphia and New Orleans, and the assistant treasurers at New York, Boston, Charleston, and St. Louis, can be constructed and prepared for use, it shall be the duty of the Secretary of the Treasury to procure suitable rooms for offices for those officers at their respective locations, and to contract for such use of vaults and safes as may be required for the safe-keeping of the public moneys in the charge and custody of those officers, respectively, the expenses to be paid by the United States.

And whereas by the thirteenth section of the act entitled, "An Act to regulate the collection of duties imposed by law on the tonnage of ships or vessels, and on goods, wares, and merchandises imported into the United States," approved July thirty-one, seventeen hundred and eighty-nine, it was provided that all fees and dues collected by virtue of that act should be received in gold and silver coin only; and whereas, also, by the fifth section of the act approved May ten, eighteen hundred, entitled, "An Act to amend the Act entitled, 'An Act providing for the sale of the lands of the United States in the territory north-west of the Ohio, and above the mouth of Kentucky River,'" it was provided that payment for the said lands shall be made by all purchasers in specie, or in evidences of the public debt; and whereas experience has proved that said provisions ought to be revived and enforced, according to the true and wise intent of the Constitution of the United States:—

SEC. 18. *Be it further enacted*, That on the first day of January, in the year one thousand eight hundred and forty-seven, and thereafter, all duties, taxes, sales of public lands, debts, and sums of money accruing or becoming due to the United States, and also all sums due for postages, or otherwise, to the General

Post-Office Department, shall be paid in gold and silver coin only, or in Treasury notes issued under the authority of the United States: *Provided*, That the Secretary of the Treasury shall publish, monthly, in two newspapers at the city of Washington, the amount of specie at the several places of deposit, the amount of Treasury notes or drafts issued, and the amount outstanding on the last day of each month.

SEC. 19. *And be it further enacted*, That on the first day of April, one thousand eight hundred and forty-seven, and thereafter, every officer or agent engaged in making disbursements on account of the United States, or of the General Post-Office, shall make all payments in gold and silver coin or in Treasury notes, if the creditor agree to receive said notes in payment; and any receiving or disbursing officer or agent who shall neglect, evade, or violate, the provisions of this and the last preceding section of this act, shall, by the Secretary of the Treasury, be immediately reported to the President of the United States, with the facts of such neglect, evasion, or violation; and also to Congress, if in session, and if not in session, at the commencement of its session next after the violation takes place.

SEC. 20. *And be it further enacted*, That no exchange of funds shall be made by any disbursing officers or agents of the Government, of any grade or denomination whatsoever, or connected with any branch of the public service, other than an exchange for gold and silver; and every such disbursing officer, when the means for his disbursements are furnished to him in gold and silver, shall make his payments in the money so furnished; or when those means are furnished to him in drafts, shall cause those drafts to be presented at their place of payment, and properly paid, according to the law; and shall make his payments in the money so received for the drafts furnished, unless, in either case, he can exchange the means in his hands for gold and silver at par. And it shall be, and is hereby, made the duty of the head of the proper department immediately to suspend from duty any disbursing officer who shall violate the provisions of this section, and forthwith to report the name of

the officer or agent to the President, with the fact of the violation, and all the circumstances accompanying the same and within the knowledge of the said Secretary, to the end that such officer or agent may be promptly removed from office or restored to his trust and the performance of his duties, as to the President may seem just and proper: *Provided, however,* That those disbursing officers having at present credits in the banks, shall, until the first day of January next, be allowed to check on the same, allowing the public creditors to receive their pay from the banks either in specie or bank notes.

SEC. 21. *And it be further enacted,* That it shall be the duty of the Secretary of the Treasury to issue and publish regulations to enforce the speedy presentation of all Government drafts for payment at the place where payable, and to prescribe the time, according to the different distances of the depositaries from the seat of Government, within which all drafts upon them, respectively, shall be presented for payment; and in default of such presentation, to direct any other mode and place of payment which he may deem proper; but in all these regulations and directions it shall be the duty of the Secretary of the Treasury, to guard as far as may be, against those drafts being used or thrown into circulation as a paper currency, or medium of exchange. And no officer of the United States shall, either directly or indirectly, sell or dispose to any person or persons, or corporations, whatsoever, for a premium, any Treasury note, draft, warrant, or other public security, not his private property, or sell or dispose of the avails or proceeds of such note, draft, warrant, or security, in his hands for disbursement, without making return of such premium, and accounting therefor by charging the same in his accounts to the credit of the United States; and any officer violating this section shall be forthwith dismissed from office.

SEC. 22. *And be it further enacted,* That the assistant treasurers directed by this act to be appointed, shall receive, respectively, the following salaries per annum, to be paid quarterly at the Treasury of the United States; to wit: the

Assistant Treasurer at New York shall be paid a salary of four thousand dollars per annum ; the Assistant Treasurer at Boston shall be paid a salary of two thousand five hundred dollaes per annum ; the Assistant Treasurer at Charleston shall be paid a salary of two thousand five hundred dollars per annum ; the Assistant Treasurer at St. Louis shall be paid a salary of two thousand five hundred dollars per annum ; the Treasurer of the mint at Philadelphia shall, in addition to his present salary, receive five hundred dollars annually for the performance of the duties imposed by this act ; the Treasurer of the branch mint at New Orleans shall also receive five hundred dollars annually for the additional duties created by this act ; and these salaries, respectively, shall be in full for the services of the respective officers, nor shall either of them be permitted to charge or receive any commission, pay, or perquisite, for any official service, of any character or description whatsoever ; and the making of any such charge, or the receipt of any such compensation, is hereby declared to be a misdemeanor, for which the officer, convicted thereof before any court of the United States of competent jurisdiction, shall be subject to punishment by fine or imprisonment, or both, at the discretion of the court before which the offence shall be tried.

SEC. 23. *And it be further enacted*, That there shall be, and hereby is, appropriated to be paid out of any money in the Treasury not otherwise appropriated, the sum of five thousand dollars, to be expended, under the direction of the Secretary of the Treasury, in such repairs or additions as may be necessary to put in good condition for use, with as little delay as may be consistent with the public interests, the offices, rooms, vaults, and safes herein mentioned, and in the purchase of any necessary additional furniture and fixtures, in the purchase of necessary books and stationery, and in defraying any other incidental expenses necessary to carry this act into effect.

SEC. 24. *And be it further enacted*, That all acts or parts of acts which come in conflict with the provisions of this act be, and the same are hereby, repealed.

Approved, August 6, 1846.

B.

AMENDMENTS TO SUB-TREASURY ACT.

MARCH 3, 1857.

SEC. 1. *Be it enacted*, etc., That the act to provide for the better organization of the Treasury, and for the collection, safe-keeping, transfer, and disbursement of the public revenue, approved August sixth, eighteen hundred and forty-six, be, and the same is hereby so amended that each and every disbursing officer or agent of the United States, having any money of the United States intrusted to him for disbursement, shall be, and he is hereby required to deposit the same with the Treasurer of the United States, or with some one of the assistant treasurers or public depositaries, and draw for the same only in favor of the persons to whom payment is to be made in pursuance of law and instructions; except when payments are to be made in sums under twenty dollars, in which cases such disbursing agent may check in his own name, stating that it is to pay small claims.

SEC. 2. *And be it further enacted*, That the Treasurer of the United States, assistant treasurers, and public depositaries shall safely keep all moneys deposited by any disbursing officer or disbursing agent of the United States, as well as any moneys deposited by any receiver, collector, or other person which shall be the moneys of, or due, or owing to the United States, and for a failure so to do shall be held guilty of the crime of embezzlement of said moneys, and subject to the punishment provided for embezzlement in the act to which this is an amendment.

SEC. 3. *And be it further enacted*, That it shall be the duty of each and every person who shall have moneys of the United States in his hands or possession to pay the same to the Treasurer, the assistant treasurer, or a public depositary of the United States, and take his receipt for the same, in duplicate, and forward one of them forthwith to the Secretary of the Treasury, and for a failure to make such deposit, when required by the

Secretary of the Treasury, or any other department, or the accounting officers of the Treasury, the person so failing shall be held guilty of the crime of embezzlement, and subject to the punishment for that offence provided in the act to which this is an amendment.

C.

DEPOSITORIES.

[SECTION 3211 OF REVISED STATUTES.]

The Secretary of the Treasury is authorized to designate one or more depositories in each State, for the deposit and safe-keeping of the money collected by virtue of the internal-revenue laws; and the receipt of the proper officer of such depository to a collector for the money deposited by him shall be a sufficient voucher for such collector in the settlement of his accounts at the Treasury Department.

D.

DEPOSITS OF POSTMASTERS.

[SECTION 3847 OF REVISED STATUTES.]

Any postmaster, having public money belonging to the Government, at an office within a county where there are no designated depositories, treasurers of mints, or Treasurer, or assistant treasurers of the United States, may deposit the same at his own risk and in his official capacity, in any national bank in the town, city, or county where the said postmaster resides, etc.

E.

TRANSFERS OF POST-OFFICE MONEY.

[SECTION 3641 OF REVISED STATUTES.]

The Postmaster-General may transfer money belonging to the postal service between the Treasurer, assistant treasurers, and designated depositaries, at his discretion, and as the safety of the public money and the convenience of the service may require.

F.

DISBURSING OFFICERS.

[SECTION 3620 OF THE REVISED STATUTES.]

It shall be the duty of every disbursing officer having any public money intrusted to him for disbursement, to deposit the same with the Treasurer or some one of the assistant treasurers of the United States, and to draw for the same only as it may be required for payments to be made by him in pursuance of law [and draw for the same only in favor of the persons to whom payment is made]; and all transfers from the Treasurer of the United States to a disbursing officer shall be by draft or warrant on the Treasury or an assistant treasurer of the United States. In places, however, where there is no treasurer or assistant treasurer, the Secretary of the Treasury may, when he deems it essential to the public interest, specially authorize in writing the deposit of such public money in any other public depository, or, in writing, authorize the same to be kept in any other manner, and under such rules and regulations as he may deem most safe and effectual to facilitate the payments to public creditors.

G.

ACCOUNTS.

[SECTION 3622 OF THE REVISED STATUTES.]

Every officer or agent of the United States who receives public money which he is not authorized to retain as salary, pay, or emolument, shall render his accounts monthly. Such accounts, with the vouchers necessary to the correct and prompt settlement thereof, shall be sent by mail, or otherwise, to the Bureau to which they pertain, within ten days after the expiration of each successive month, and, after examination there, shall be passed to the proper accounting officer of the Treasury for settlement. Disbursing officers of the Navy shall, however, render their accounts and vouchers direct to the proper accounting officer of the Treasury. In case of the non-receipt at the Treasury, or proper Bureau, of any accounts within a reasonable and proper time thereafter, the officer whose accounts are in default shall be required to furnish satisfactory evidence of having complied with the provisions of this section. The Secretary of the Treasury may, if in his opinion the circumstances of the case justify and require it, extend the time hereinbefore prescribed for the rendition of accounts. Nothing herein contained shall, however, be construed to restrain the heads of any of the Departments from requiring such other returns or reports from the officer or agent, subject to the control of such heads of [*Department*] [Departments] as the public interest may require.

H.

NATIONAL BANK DEPOSITORIES.

[SECTION 5153 OF REVISED STATUTES.]

All national banking associations, designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, except receipts from customs, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public moneys, and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require the associations thus designated to give satisfactory security, by the deposit of United States bonds and otherwise, for the safe-keeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government. And every association so designated as receiver or depositary of the public money shall take and receive at par all of the national currency bills, by whatever association issued, which have been paid into the Government for internal revenue, or for loans or stocks.

III.

CORRECT CURRENCY STATEMENT.

THE monthly currency statements issued by the Government are misleading. They take no account of gold bullion held by the Treasury, and they count as money in the Treasury both coin and the certificates which represent it, as well as both currency certificates and the notes against which they are issued. The erroneousess of the Government statement of the amount of money in the Treasury appears from the table below. An explicit account of the differences between the two statements, with the reasons therefor, is given in the *Commercial and Financial Chronicle* of January 30, 1892; and the subject is discussed in part in the report of the Treasurer of the United States for 1891, under the head of Treasury Notes of 1890.

TREASURY STATEMENT OF THE AMOUNT OF MONEY IN THE TREASURY, Oct. 1, 1892.	CORRECTED STATEMENT FOR THE SAME DATE.
Gold coin \$164,550,486 Standard silver dollars . . . 356,173,732 Subsidiary silver 12,551,498 Gold certificates 25,345,590 Silver certificates 2,619,477 Treasury notes of 1890 . . . 5,482,485 United States Notes 24,077,858 Currency certificates (Act, June 8, 1872) 970,000 National bank notes 7,701,652	Net gold coin and bullion . . . \$119,395,509 Net silver coin and bullion . . . 2,840,124 Treasury notes of 1890 . . . 5,482,485 United States notes . . . 6,787,858 National bank notes . . . 7,701,652 Fractional silver . . . 12,551,498
Total cash in Treasury . . \$599,472,778 Amt. in nat. bank depositories \$154,759,126 15,496,513
Total government cash . . \$599,472 778	\$170,255,639

IV.

AVERAGE MONTHLY SURPLUS OF NEW YORK
BANKS.

	1888.	1889.	1890.	1891.	AVERAGE FOR FOUR YEARS.
January	18,676	15,784	8,971	18,036	15,367
February	16,506	14,865	5,855	16,935	13,540
March	10,014	7,192	2,253	9,543	7,250
April	12,463	8,247	1,638	5,824	7,043
May	24,506	14,423	3,002	5,974	11,976
June	27,840	9,618	6,172	12,939	14,127
July	27,651	6,498	5,496	17,052	14,174
August	27,590	5,044	3,530	16,479	13,161
September	12,742	4,044	5,172	7,411	7,342
October	13,612	1,113	3,169	9,500	6,849
November	11,384	1,172	962	11,161	6,169
December	8,122	2,187	3,815	16,961	8,272

¹ Three figures are omitted. The Table is compiled from returns in the *Financial Chronicle* and the *New York Journal of Commerce*.

V.

THE FRENCH INDEMNITY INCIDENT.

THE history of the trouble that occurred between the Bank and the Administration in the matter of the payment of the French indemnity is as follows: —

By the treaty signed at Paris, July 4, 1831, and ratified in Washington in the following February, the French Government agreed to pay at Paris twenty-five millions of francs, in six annual instalments, on the order of the United States, for distribution among those entitled to it, in settlement of all claims against France, by citizens of this country for injuries and losses sustained during the Napoleonic wars, between 1800 and 1817. Under this treaty Secretary McLane drew a bill on France, payable to the cashier of the bank of the United States. The amount was credited to the Government by the bank, and the draft sent to Europe for collection. The amount credited was not carried into the Treasury by warrant, and no part of it was ever withdrawn. Payment of the draft was refused by the French Treasury, because the treaty had not yet been ratified by the Chambers. Hottinguer & Co. took the note up, for the honor of the bank, and debited the bank with the amount plus interest and costs. The bank immediately notified Secretary McLane that it would hold him responsible for principal, interest, costs, damages, and exchange. The claim for damages was made under an old law of Maryland,¹ which was operative also in the District of Columbia, by which fifteen per cent. damages were allowed on foreign bills of exchange that went to protest. On the advice of Attorney-General Taney, the claim for damages

¹ Ch. 38, Acts 1785; see Dorsey's Maryland Statutes, i. 197.

was disallowed. The bank then indemnified itself by withholding part of the Government dividend, and suit was brought for its recovery in the U. S. Circuit Court for the eastern district of Pennsylvania. The verdict was for the Government, but the case went to the Supreme Court on an exception. The judgment of the court, delivered by Justice McLean, reversed the decision of the Circuit Court, and remanded the case for a new trial. Justice Catron dissented from the decision and Justice Wayne concurred, but "not for the reasons given in the opinion of the court."¹ The Government finally recovered the dividend withheld.

The Finance Committee of the Senate in their report on the bank, in the second session of the 23d Congress, indorsed the action of the bank.

¹ See 2d Howard, 711; 15 Curtis, 257, and 16 Curtis, 429.

VI.

INFLUENCE OF SUB-TREASURY ON BANK
MANAGEMENT.

AN opinion has been expressed in some quarters that reliance of the banks on the Government disbursements to meet the fall demand for money, has produced carelessness among the banks in the matter of keeping up their reserves. For instance, the *New York Commercial and Financial Chronicle*¹ says : —

“The time was when our banks provided beforehand for the fall trade, and so trimmed their sails, if we may be permitted to use the expression, through the summer months as to avert a storm, by preparing themselves for the crop demand. Of late years they have looked to the Treasury wholly, and have gone through the summer trenching on their reserves, regardless of any increased drain sure to come later on.”

It is a very difficult matter to prove that the Independent Treasury has had this bad influence on bank management. On the face of the matter it certainly seems a possible result of the system ; but an examination of the reserves of the associated banks of New York for the summer months of several years does not show such a depletion as the remarks of the *Chronicle* might lead one to expect. Moreover, it must be remembered that the summer is a dull season, and that the demand for loans is slack. Hence, even if the banks should desire to do so, the opportunity for the banks to deplete their reserves is lacking them. Below are given the opinions of officers of several New York City banks on the remarks of the *Chronicle*. It will be seen that the weight of opinion is against that of the *Chronicle*.

1. “It seems to me that the statement is not exact. . . . Owing to the creation of money reserve centres in the West, and

¹ Dec. 6, 1890.

the deflection of deposits of banks from New York to these centres, the accumulation of surplus funds has been less of late years in New York, and hence the withdrawals to move the crops have been smaller."—*President Com. Exchange National Bank, March, 1892.*

2. "The idea that banks now, or of late years, have depended on the Treasury for assistance, instead of preparing themselves for the regular autumn demand for crop movements, is entirely erroneous."—*Cashier First National Bank, March 30, 1892.*

3. "As far as we know, the banks of this city do not at any time make their calculations relying on the Treasurer of the United States for assistance in perfecting same, nor do we consider they should, or that it would be wise to do so."—*Cashier Importers' and Traders' National Bank, March 20, 1892.*

4. "Each individual bank throughout the country, if fairly managed, is in the habit of estimating its dealers' needs irrespective of Treasury conditions. . . . Extraordinary accumulations in the Treasury, however, necessarily called for heroic remedies. . . . Under such extraordinary conditions the ordinary calculations on the part of bankers would not cover the case, hence the seeming occasion for the accusation referred to, I presume."—*President Mercantile National Bank, March 30, 1892.*

5. "We may be regarded as too conservative, . . . but we have found it to our advantage to have our maturities in hand about July and August, to meet the usual demand which occurs at that season. We are pursuing that course to-day."—*Cashier Merchants' National Bank, March 30, 1892.*

6. "We always prepare ourselves carefully for the fall demand for money for the movement of the crops, . . . and keep our loans and reserves well in hand throughout the summer for this purpose."—*President National Park Bank, March 30, 1892.*

7. "We did not transact our business on the lines mentioned.¹ Our policy was to strengthen ourselves with our own resources for the demands that the crops might bring for money. I am

¹ In the *Chronicle*.

under the impression that such was also the policy of all of the leading banks in this city."—*President National Bank of the Republic, March 30, 1892.*

8. "We believe the statement to be partially true."—*Cashier National Broadway Bank, March 30, 1892.*

9. "I do not think the banks in this city have relied wholly upon the Treasury to provide for demands which recur with the regularity of seed-time and harvest. It has no doubt been their custom to employ in call loans the money reserved for moving the crops, and when the demand comes the borrower is dependent upon the open market for the money to pay with."—*President National Bank of Commerce, April 2, 1892.*

10. "The policy of this bank (and which has been carried out by its practice) has been to keep a very large *surplus* reserve, and hence we have not relied upon the Treasury for the purpose in question. Speaking for the banks as a whole, I think there is some truth in the remarks of the *Chronicle*."—*President Chemical National Bank, April 2, 1892.*

11. "While the paragraph¹ may be somewhat too sweeping in its statements, it is, I think, true that the banks generally relied at the time referred to, more or less, upon relief from the Treasury. . . . But, on the whole, I think there is no reason to criticise the management of the banks as a body" [in this respect].—*President Western National Bank, March 20, 1892.*

12. "We are of the impression that the custom is quite general among the banks of this city, to make due provision for the fall demand for money." [The writer desires not to be quoted in the matter.]

¹ In the *Chronicle*.

VII.

CIRCULAR.—ISSUE AND REDEMPTION OF
CURRENCY.

1891.

Department No. 144.Treasurer's Office, No. 59.

TREASURY OF THE UNITED STATES.

Washington, D.C., September 12, 1891.

THE following regulations govern the issue and redemption of the paper currency and the gold, silver, and minor coins of the United States, and the redemption of national bank notes by the Treasurer of the United States :

I.—ISSUE OF UNITED STATES PAPER CURRENCY.

1. The Treasurer will forward new United States notes by express, at the expense of the consignee, at Government contract rates, or by registered mail, registration free, at the risk of the consignee, in return for United States notes unfit for circulation, national bank notes, fractional silver coin, or minor coin.

2. Gold certificates are issued upon a deposit of gold coin with the Treasurer or an Assistant Treasurer, in denominations of not less than \$20.

3. Silver certificates are issued by the Treasurer or Assistant Treasurers, upon a deposit of standard silver dollars, or in return for such certificates unfit for circulation forwarded for redemption.

4. Treasury notes of 1890 are issued in payment of silver bullion, purchased under the act of July 14, 1890, or in return for such notes unfit for circulation forwarded for redemption.

II.—ISSUE OF GOLD COIN.

5. Gold coin is issued in redemption of United States notes, in sums not less than \$50, by the Assistant Treasurers in New York and San Francisco.

III. — ISSUE OF STANDARD SILVER DOLLARS AND FRACTIONAL SILVER COIN.

6. Standard silver dollars are issued in redemption or exchange of silver certificates and Treasury notes of 1890, by the Treasurer or Assistant Treasurers.

7. Upon the deposit of an equivalent sum in United States currency or national bank notes with the Treasurer or any Assistant Treasurer or national bank depository, fractional silver coin will be paid in any amount by the Treasurer or Assistant Treasurers in the cities where their several offices are, or will be sent by express, in sums of \$200 or more, at the expense of the Government, or by registered mail in packages of \$50, registration free, from the most convenient Treasury office, to the order of the depositor. For this purpose drafts may be sent to the Treasurer or any Assistant Treasurer, payable in their respective cities.

IV. — ISSUE OF MINOR COIN.

8. Minor coin is issued under the following regulations of the Director of the Mint : —

Five-cent nickel pieces and one-cent bronze pieces will be forwarded in the order of application from the United States Mint at Philadelphia, Pa., to points reached by express companies, free of transportation charges, in sums of \$20 or multiples thereof, upon receipt and collection by the Superintendent of that Mint of a draft on New York or Philadelphia, payable to his order. To points not reached by express companies, and where delivery under contract with the Government is thus impracticable, the above coin can, on the same terms, be sent by registered mail at applicant's risk, registry fee on same to be paid by the Government. Orders for transportation at risk of applicant should express acceptance of the risk.

9. The Treasurer and Assistant Treasurers will pay out for lawful money any minor coin not needed in the current business of their offices.

V. — ISSUE OF THE TREASURER'S TRANSFER-CHECKS.

10. Subject to the convenience of the Treasury, the Treasurer will issue transfer-checks on the Assistant Treasurers, payable to the order of the sender or his correspondent, for United States notes unfit for circulation, or national bank notes sent to the Treasurer for redemption, or for fractional silver coin or minor coin sent in multiples of \$20 to the Treasurer or Assistant Treasurer.

VI. — REDEMPTION OF UNITED STATES PAPER CURRENCY.

11. United States notes, fractional currency notes, gold certificates, silver certificates, and Treasury notes of 1890, are redeemable by the Treasurer, and when not mutilated so that less than three-fifths of the original proportions remain[s], by the several Assistant Treasurers, at face value. United States notes are redeemable in coin, in sums not less than \$50, by the Assistant Treasurers in New York and San Francisco. Silver certificates are redeemable in standard dollars only, or exchangeable for other silver certificates.

12. United States notes, fractional currency notes, gold certificates, silver certificates, and Treasury notes of 1890, when mutilated so that less than three-fifths, but clearly more than two-fifths, of the original proportions remain[s], are redeemable by the Treasurer only, at one-half the face value of the whole note or certificate. Fragments not clearly more than two-fifths are not redeemed, unless accompanied by the evidence required in paragraph 13.

13. Fragments less than three-fifths are redeemed at the face value of the whole note when accompanied by an affidavit of the owner or other persons having knowledge of the facts that the missing portions have been totally destroyed. The affidavit must state the cause and manner of the mutilation, and must be sworn to and subscribed before an officer qualified to administer oaths, who must affix his official seal thereto, and the character

of the affiant must be certified to be good by such officer or some other having an official seal. Signatures by mark [X] must be witnessed by two persons who can write, and who must give their places of residence. The Treasurer will exercise such discretion under this regulation as may seem to him needful to protect the United States from fraud. Fragments not redeemable are rejected and returned.

VII. — REDEMPTION OF NATIONAL BANK NOTES.

14. National bank notes are redeemable by the Treasurer in sums of \$1,000 or any multiple thereof.

15. Notes equalling or exceeding three-fifths of their original proportions, and bearing the name of the bank and the signature of one of its officers, are redeemable at their face value.

16. Notes of which less than three-fifths remains, or from which both signatures are lacking, are not redeemed by the Treasurer, but should be presented for redemption to the bank of issue. Fragments less than three-fifths are accepted from the bank of issue for face value by the Treasurer only when accompanied by evidence, as required by paragraph 13, that the missing portions have been totally destroyed.

17. Fragments redeemed by the bank of issue for less than face value are accepted by the Treasurer only when their valuation is equal to the face value of a note of some denomination issued by the bank, or some multiple thereof. The required valuation may be made up of several fragments of notes of the same or different denominations. Fragments not clearly more than two-fifths are acceptable only when accompanied by evidence, as required by paragraph 13, that the missing portions have been totally destroyed.

18. It having been decided that national bank notes stolen when unsigned, and put in circulation with forged signatures, are not obligatory promissory notes of the banks under Section 5182 of the Revised Statutes, they are not redeemed by the Treasurer.

VIII. — REDEMPTION OR EXCHANGE OF FRACTIONAL SILVER COIN, MINOR COIN, AND STANDARD SILVER DOLLARS.

19. Fractional silver coin and coins of copper, bronze, or copper-nickel may be presented in sums or multiples of \$20, assorted by denominations in separate packages, to the Treasurer or an Assistant Treasurer for redemption or exchange into lawful money, and standard silver dollars for exchange into silver certificates only. When forwarded by express, the charges should be prepaid.

20. No foreign or mutilated silver coin will be redeemed. Reduction by natural abrasion is not considered mutilation.

21. Minor coin that is so defaced as not to be readily identified, or that is punched or clipped, will not be redeemed or exchanged. Pieces that are stamped, bent, or twisted out of shape, or otherwise imperfect, but showing no material loss of metal, will be redeemed.

IX. — TRANSMISSION TO THE TREASURER.

22. United States notes, gold certificates, silver certificates, Treasury notes of 1890, and national bank notes should be forwarded in separate remittances. The notes should be assorted by denominations and enclosed in paper straps, not more than one hundred notes to each strap, and the straps should be marked with the amount of their contents. Not more than eight thousand notes should be put in one package.

23. An inventory, giving the amount of each denomination of notes, the total amount in the package, the address of the party sending, and the disposition to be made of the proceeds, should be enclosed with each package, and a letter of advice sent by mail.

24. The package, if it be sent by express, should be sealed up in stout paper and addressed to the "Treasurer of the United States, Washington, D. C." The wrapper should be plainly marked with the owner's name and address, the amount and

kind of currency enclosed, and, if the sender desires the benefit of the Government contract, with the words, "Under Government contract with the United States Express Company."

25. It is the duty of postmasters to register free of charge all letters on which the postage has been fully prepaid, addressed to the Treasurer, containing currency of the United States for redemption. It is recommended that all such letters be registered as a protection against loss.

26. Remittances of money by mail should be addressed to the "Treasurer of the United States, Washington, D. C." Such remittances and returns therefor by mail are invariably at the risk of the owners. All communications to the Treasurer in regard to packages lost in the mail are referred for investigation to the Chief Post-Office Inspector, Post-Office Department, Washington, D. C., to whom any subsequent inquiry on the subject should be addressed.

X. — EXPRESS-CHARGES.

27. The Government contract with the United States Express Company for the transportation of moneys and securities extends to all points accessible through established express lines reached by continuous railway communication, but does not embrace sea or river transportation of any kind, and does not extend westward beyond the Missouri River, but includes the States of Missouri, Arkansas, and Texas.

28. The contract rates for the transportation of all kinds of paper currency to or from Washington are —

Between Washington and points in the territory of the United States Express Company and reached by it, 15 cents per \$1,000; sums of \$500 or less, 10 cents.

Between Washington and points in the territory of another express, excepting points in Texas and Arkansas, 50 cents per \$1,000; sums of \$500 or less, 30 cents.

Between Washington and points in Texas and Arkansas, 75 cents per \$1,000; sums of \$500 or less, 50 cents.

29. Express charges are paid by the Government, at contract rates, on standard silver dollars sent by the Treasurer or Assistant Treasurers in sums or multiples of \$500, on fractional silver coin in sums of \$200 or more, on minor coin sent from the mint at Philadelphia in sums or multiples of \$20, and on national bank notes sent to the Treasurer for redemption in sums or multiples of \$1,000.

30. On United States notes, gold certificates, silver certificates, or Treasury notes of 1890, sent for redemption or for credit of the five per cent. redemption fund, and on national bank notes sent for redemption in other amounts than multiples of \$1,000, the charges, if not prepaid, are deducted from the proceeds at contract rates.

31. On United States notes, gold certificates, silver certificates, or Treasury notes of 1890, returned for United States currency or national bank notes redeemed, the charges are deducted at contract rates.

32. On standard silver dollars, fractional silver coin, and minor coin, sent for exchange or redemption the charges must be prepaid by the sender.

33. On transfers of funds from national bank depositaries, under letters of instruction, the charges must be paid by the depositaries.

34. The Treasurer has no control over rates exacted when the charges are prepaid, or for transportation outside of the territorial limits of the contract.

35. No charge is made for the amount of express-charges enclosed with a remittance of even thousands of dollars, when separately noted on the wrapper. Packages should always be marked with the exact amount of the contents.

XI. — GENERAL INFORMATION.

36. Paper currency presented for redemption or exchange, or for credit of the Treasurer at the offices of the Assistant Treasurers, must be assorted by kinds, and enclosed in paper straps, the

straps not to contain more than one hundred notes each, and to be plainly marked with the amount of the contents.

37. The act of June 30, 1876 (19 Statutes, 64), requires "that all United States officers charged with the receipt or disbursement of public moneys, and all officers of national banks, shall stamp or write in plain letters the word 'counterfeit,' 'altered,' or 'worthless,' upon all fraudulent notes issued in the form of and intended to circulate as money which shall be presented at their places of business; and if such officers shall wrongfully stamp any genuine note of the United States or of the national banks, they shall, upon presentation, redeem such notes at the face value thereof."

38. Counterfeit notes or coins found in remittances to this office are returned to the sender cancelled, for the purpose of enabling him to make reclamation; and after such use they must be returned to this office for transfer to the Secret-Service Division of the Treasury Department.

39. In case of the loss or destruction of one of the Treasurer's checks, and upon application for a duplicate, payment of the original check is stopped, and the applicant is furnished with a form of bond of indemnity, upon return of which, properly executed, a duplicate is issued.

Compliance with the foregoing regulations is enjoined on all officers of the Department, and observance of them will be expected of all making remittances to this office.

E. H. NEBEKER,
Treasurer U. S.

Approved:

A. B. NETTLETON,
Acting Secretary of the Treasury.

VIII.

CIRCULAR. — REGULATIONS FOR THE DEPOSIT
OF PUBLIC MONEYS.1888.Department No. 7.Division Of Public Moneys.

TREASURY DEPARTMENT,

OFFICE OF THE SECRETARY,

Washington, D. C., January 12, 1888.

To Collectors and Surveyors of Customs, Collectors of Internal Revenue, Receivers of Public Moneys for Lands, Marshals, Clerks of Courts, and all other Officers or Agents of the United States engaged in collecting, depositing, or transmitting Public Moneys : —

THE following regulations, based upon specific provisions of existing laws, for the violation of which penalties of a severe character are provided, are hereby prescribed, and a strict compliance therewith enjoined : —

COLLECTIONS.

Collectors and Surveyors of Customs, Collectors of Internal Revenue, and Receivers of Public Moneys, living in the same city or town with an Assistant Treasurer or Designated Depository, must deposit their receipts at the close of each day. Officers at such a distance from a depository that daily deposits are impracticable, must forward their receipts as often as they amount to one thousand dollars, and at the end of each month without regard to the amount then accumulated.

All collections must be deposited to the credit of the Treasurer of the United States, except moneys received by Collectors of Internal Revenue from sales under Section 3460, Revised Statutes of the United States, or from offers of compromises

when received prior to the acceptance of the offer, which must be deposited to the credit of the Secretary of the Treasury as heretofore.

District Attorneys, Marshals, and Clerks of Courts who receive public moneys accruing to the United States from fines, penalties, and forfeitures, fees, costs (including *costs* in criminal suits for violations of the postal laws), forfeitures of recognizances, debts due the United States, interest on such debts, sales of public property, or from any other sources, will deposit the same in accordance with the foregoing paragraphs, except moneys accruing from customs (including navigation) and internal-revenue cases, which should be paid to the Collector or Surveyor of Customs or Collector of Internal Revenue of the district in which the case arose, and moneys accruing from *civil* post-office suits, and *fines* in criminal cases for violation of the postal laws, which should be deposited to the Treasurer's credit *for the use of the Post-Office Department*.

The Department encourages the practice of a Deputy Collector or Agent depositing directly with a depositary in the name of his principal, believing that greater economy and despatch will thereby be attained. In such cases the depositor will take certificates of deposit in the name of the Collector or other officer whose agent he is, or for whom he is acting, to whom the certificates should be forwarded for disposition as hereinafter provided.

DISBURSING FUNDS.

All moneys advanced from the Treasury to any officer or agent of the Government for disbursement, or coming into his hands, must be deposited to his official credit as such disbursing officer or agent, and drawn upon only in his official capacity.

Deposits of such moneys may be made with the Treasurer, an Assistant Treasurer, or any designated depositary of the United States, if specially authorized by the Secretary of the Treasury for that purpose under the provisions of Section 3620, Revised Statutes of the United States, and not otherwise. In

case no such special authority has been given to a convenient depository, application should be made to the Secretary of the Treasury for such authorization.

CERTIFICATES OF DEPOSIT.

Hereafter the originals of all certificates of deposit for the deposit of any and all public moneys, of every character and description, except as stated in the next succeeding paragraph, should be forwarded to the Secretary of the Treasury immediately upon their receipt by the depositors, who, before transmitting them, should see that their amounts correspond with the amounts actually deposited by them.

EXCEPTIONS.

Those issued to Disbursing Officers for disbursing funds deposited to their official credit, subject to the payment of their checks, and more properly called Disbursing Officers' receipts, should be retained in their own possession; those issued for the transfer of funds from one Government depository to another, and on account of silver coin, or the five per cent. National Bank Redemption Fund, should be forwarded to the Treasurer of the United States; and those issued for moneys deposited to the credit of the Treasurer of the United States for use of the Post-Office Department should be forwarded to the Third Assistant Postmaster-General.

RECEIPTS.

Receipts given to district attorneys, marshals, or clerks for moneys paid by them to Collectors and Surveyors of Customs, should be sent to the Solicitor of the Treasury, and similar receipts from Collectors of Internal Revenue should be sent to the Commissioner of Internal Revenue.

Receipts given to an officer for deposits of his disbursing funds to his own credit should be retained by him for his own security as above stated.

Reference is hereby made to Department's Circulars of April 3, 1879, relative to the transportation of public moneys by express; August 24, 1876, relative to disbursing funds; November 28, 1879, and June 2, 1882, relative to offers of compromise, and January 21, 1874, concerning the issue and disposition of certificates. Also, to Sections 3216, 3218, 3617, 3620, 3621, 3625, and 5481 to 5505, inclusive, of the Revised Statutes of the United States.

This circular supersedes circular regulations for the deposit of public moneys dated January 3, 1876.

C. S. FAIRCHILD,
Secretary.

IX.

PROPOSALS OF HON. MICHAEL A. HARTER OF
OHIO, AS TO THE CHARACTER OF BONDS
TO BE REQUIRED TO SECURE
CIRCULATION.

[AS REPORTED IN THE BOSTON HERALD OF JUNE 14, 1892.]

THAT in addition to the United States bonds now required by law to be deposited with the Treasurer of the United States to secure the circulating notes of national banking associations, the comptroller of the currency is hereby authorized and required to accept registered bonds issued by any railroad corporation or city in the United States and deposit the same with the Treasurer of the United States in behalf of any such association as security for its circulating notes, subject to the following restrictions:—

First. The principal and interest of all such bonds shall, in expressed terms, be payable in gold coin of the United States.

Second. All such bonds must have been continuously listed upon some regular stock exchange, located in a city of the United States having a population of not less than 500,000, for at least five years.

Third. No bond shall be accepted upon which payment of interest has at any time been in default, or which at any time within three years prior to the date of its offer for acceptance has sold publicly upon any stock exchange where it was listed for less than a hundred and five cents on the dollar of its face value.

Fourth. No bond shall be accepted if the total tax levy of the city issuing it exceeds two per cent. per annum.

Fifth. No railroad bond, not regularly secured by mortgage upon the roadbed and track, shall be accepted.

Sixth. No association shall be permitted to have more than twenty per cent. of its bonds on deposit of the issue of any one railroad corporation or city.

Seventh. Whenever any class of bonds on deposit has been publicly sold below par for a period of thirty days upon any stock exchange where listed, the comptroller shall require a bond to be substituted which will in all respects meet the requirements of this act.

Eighth. Whenever any railroad corporation which was paying dividends upon its stock when its bonds were accepted by the comptroller ceases to pay dividends, the substitution of other and proper bonds shall be required.

X.

MONTHLY GOVERNMENT RECEIPTS FROM CUSTOMS, IN MILLIONS OF DOLLARS.¹

	1888.	1889.	1891.	AVERAGE.
January	18.3	20.7	23.1	20.7
February	16.7	18.8	19.0	18.2
March	17.6	19.2	15.4	17.4
April	17.8	20.0	12.1	16.6
May	15.6	17.2	12.0	14.9
June	18.0	17.6	14.2	16.6
July	19.5	19.0	15.5	18.0
August	22.0	21.5	15.2	19.6
September	19.0	17.8	14.1	16.9
October	18.8	18.8	14.0	17.2
November	15.3	16.7	12.7	14.9
December	16.9	15.9	13.8	15.5

¹ The figures are from the *Chronicle*.

XI.

GOVERNMENT DISBURSEMENTS FOR FOUR YEARS,
IN MILLIONS OF DOLLARS.

	1888.	1889.	1890.	1891.	AVER. FOR THE FOUR YEARS.
January	21.9	25.6	27.9	24.0	25.1
February	19.9	33.8	25.1	31.7	27.6
March	15.5	17.0	17.5	31.5	20.4
April	24.9	22.5	29.9	25.3	25.7
May	27.5	24.4	27.2	29.8	22.2
June	16.6	13.8	14.9	35.9	20.3
July	36.1	42.0	38.1	39.7	39.0
August	22.2	38.3	33.9	20.7	28.8
September	19.5	16.5	33.7	23.9	23.4
October	32.6	28.6	38.0	31.9	32.8
November	36.6	25.3	42.6	27.9	33.1
December	15.5	25.9	21.9	31.8	31.7

XII.

ALLEGED REPEAL OF THE SUB-TREASURY LAW.

It has been claimed¹ that the Sub-Treasury law was repealed, incidentally, as it were, by a section of chapter 230 of the Acts of the 41st Congress, second session, in the year 1870. This chapter deals with patents, and its last clause enacts, "That the acts and parts of acts set forth in the schedule of the acts cited, hereto annexed, are hereby repealed, without reviving any acts or parts of acts repealed by any of said acts, or by any clause or provision therein," etc. Following this clause is the schedule cited, containing the titles of 25 patent laws and eight copyright laws. In the list of patent laws is the following: "August 6, 1846, chap. 90, vol. 9, page 59." This is the Independent Treasury law. Just before the list of acts repealed, however, is a statement that the repeal affects only those parts of them which refer to patents. There appears no explanation, unless it may have been a clerical error, why the Independent Treasury Act should have been put among those that have to do with patents. Of course, the provision that the repeal should apply to the acts cited only in so far as they relate to patents, taken in connection with the fact that the Independent Treasury law does not so relate, deprives the repealing clause of any effect on that law.

¹ See the New York *Tribune*, Sept. 23, 1873, p. 1, 2d column.

XIII.

CIRCULAR.—DEPARTMENT OF THE INTERIOR,

BUREAU OF PENSIONS,
Washington, D.C., April 2, 1891

ON and after July 1, 1891, pursuant to the act of Congress approved March 3, 1891, and to the directions of the Secretary of the Interior, quarterly payments of pensions will be made as follows:—

Group 1. — July 4, October 4, January 4, April 4.

Buffalo, N.Y.		Des Moines, Io.
Concord, N.H.		Milwaukee, Wis.
Chicago, Ill.		Pittsburgh, Pa.

Group 2. — August 4, November 4, February 4, May 4.

Indianapolis, Ind.		New York, N.Y.
Knoxville, Tenn.		Philadelphia, Pa.
Louisville, Ky.		Topeka, Kan.

Group 3. — September 4, December 4, March 4, June 4.

Augusta, Me.		Detroit, Mich.
Boston, Mass.		San Francisco, Cal.
Columbus, O.		Washington, D.C.

GREEN B. RAUM.
Commissioner.

XIV.

AN ASSOCIATED NATIONAL BANK.

PLAN OF HON. C. N. JORDAN, EX-TREASURER OF THE UNITED STATES, FOR REPLACING THE INDEPENDENT TREASURY.¹

[*Address given before the Bankers' Club of Chicago, Dec., 1888.*]

IN presenting the scheme herewith submitted, permit me to say that I can make no claim to originality; but that, believing that experience is the best,—in fact, the only guide of the Banker,—I have tried to adapt the main features of the banking organizations known as the Banks of England, France, and Germany, to the requirements of our political, governmental, and geographical peculiarities as well as the financial past of the country will permit. Besides suggesting the formation of an Associated National Bank to take the place of the present Sub-Treasury, I have also, in view of the almost certain destruction of the National Bank Currency within the next two years, caused by the continuous issue of the silver certificates, attempted to furnish a scheme for the preservation of the best system of currency ever used by this or—I might almost say—any other country. It is not essential to the creation of the proposed Associated National Bank, but if the people desire the cheapest form of currency in daily use yet known to any commercial nation, to be perpetuated for their benefit, they will adopt some such scheme, in order to preserve the country from the reverses and calamities of the past.

In proposing a scheme which shall do away with the Sub-

¹ There are many points of resemblance between Mr. Jordan's plan and my own, but mine was elaborated before I saw Mr. Jordan's proposals.

Treasury, a great difficulty is to be met — which is, that a simple system cannot be devised, because of interstate jealousies, and the violent and unfounded prejudices of our uneducated people, against the National Banking System; or rather against any banking system whatever. To discuss the baseless and unwarranted character of these jealousies and prejudices, with the causes, would need an essay, and you will, therefore, please take for granted the arguments which might be used in preparing the ground in favor of the present proposition. I will first state that which I think you will all grant — that the Sub-Treasury is, has been and will continue to be, the greatest source of financial danger in this country, and, like Carthage of old, must be destroyed, in order that we may enjoy, as far as possible, financial peace.

My proposition is that Congress shall cause to be established an "Associated National Bank," to be located in the city of New York, and organized, as near as may be, after the following manner: —

The stock in this bank is to be taken by the banks of the country, at 5 per cent. of the existing bank (both State, if they choose to embrace the system, and National) capital, or capital and surplus — either in the proportion of their capital to population, or providing a specific sum (banks to be hereafter organized in the Southern States, or States poorly supplied at present with banking facilities, may be permitted to come in on the same terms — the surplus earnings, if any, equalized by rate at which the stock is taken), a certain preference being given to banks with reference to the amount of circulation issued by them in proportion to their capital. This would give to-day a capital of say \$30,000,000. All deposits of the Government should be made a preferred lien, the subscribing banks being liable for any deficit to the extent of such deficit, ratably to stock owned. This would give an additional security to the Government of say \$600,000,000 of banking capital, without reference to the existing surplus of the banks. The capital of the bank should be limited to forty millions of dollars, only to be increased from the actual

preliminary subscription in the manner above provided, as to new banks in sections of the country now poorly supplied with banking capital.

This bank should have no right to issue currency except in time of excessive demand; such issue not to be made except when the rate of interest in New York City equals or exceeds 8 per cent., the bank to hold its rate of interest at that percentage during the issuance of the notes, and while they are outstanding; or, when issued under such circumstances, be entitled to offer from time to time such a rate of premium as will insure the quickest possible retirement of the notes issued by reason of this proviso.¹

The bank shall receive all Government deposits, pay all Government interest, *receiving such compensation therefor as may be agreed on*; shall register the debt of the United States; shall do a general banking business, except that it shall not receive the deposits of persons or firms other than banks or bankers; will not be permitted to pay interests on deposits;² may accept trusts; shall receive the deposits of the banks on account of the 5 per cent. redemption fund and "retiring circulation, failed, and reducing funds;" except that the sum of the "retiring circulation fund, failed and reducing banks," shall be secured by deposits of "unified legal-tender debt," hereafter to be described, or Government bonds as at present; these bonds, or any bonds held as security for this class of deposits, to be released as liabilities on these accounts are paid; may receive deposits of states, cities and municipal corporations, and pay their interest in the manner provided for the General Government; shall or may discount for other banks mercantile paper, or bills of

¹ The German provision upon this point defeats itself, as it provides no means for early retirement of the notes issued during a time of stringency, and the penalty — the payment of 10 per cent. to the Government — is too severe to induce an issue of the notes.

² The bank, except as regards foreign banks and bankers, should not receive the accounts of other banks, except as provided, . . . the object to be attained being the endorsement as far as possible by a New York bank of the notes discounted by the Associated Bank.

exchange drawn on existing values ; it may hold the deposits as "special deposits" of other banks in the city of New York, in order to serve as the holder of the Clearing House funds of the respective banks ; the coin, or legal tenders, composing these funds shall not be included in its own reserve ; may keep and open foreign accounts, being permitted (empowered) to make such provision therefor as it may deem necessary in London, Paris, Amsterdam, Berlin, Frankfort, and at such other points as it may desire to transact a general exchange business, whether in Europe or elsewhere ; upon the agencies thus established (under satisfactory arrangements to be previously made) the banks throughout the country could draw or keep accounts. It shall keep 50 per cent. reserve on all liabilities, except the "retiring, reducing, and failed" bank funds, which shall be secured by deposits of bonds, as hereinafter provided ; 25 per cent. of which reserve may be held in sight exchange on London, Paris, Amsterdam, Frankfort, or Berlin ; it shall buy gold bullion at a rate to be agreed upon, make advances on silver and gold bullion, or gold and silver coins of other nations, at not to exceed 98 per cent. of their actual bullion value. It shall also act as the Redeeming Agent for the National Bank issues throughout the country.

The same provisions as to redemption as are now contained in the National Bank law shall apply to the notes issued under the proposed act, as hereafter provided, except that the percentage required to be kept as a redemption fund shall be deposited in the Associated Bank. The expense of printing, circulation, and redemption, as well as of the National Currency Bureau, which is to be transferred to New York, to be borne by the national banks, as provided in the National Banking law, the redemption being made in the city of New York. The 25 per cent. reserve banking clause to be stricken out as regards other cities, excepting San Francisco. The banks shall be exempt from tax on the circulation obtained under the proposed act. The national banks shall have the further right to issue notes upon special deposits with the Associated Bank (which

can only be paid out for notes redeemed, and by check or verification of the Comptroller of the Currency) of standard gold bullion, gold coin of full weight and standard fineness, such as sovereigns, francs, marks, lire, or florins.¹ The small notes, say ones, twos, fives, and tens, may be issued upon silver bullion and silver coins not less than 900 fine, but bullion and coin shall be rated at the value per ounce of 1,000 fine; and such deposits of silver shall only be available for bills not larger than \$10, and shall be redeemable in silver, coin, or gold, at the option of the banks. (The provision as to silver notes to be subject to future action of the English or associated Governments.)

Its affairs shall be managed by a general manager, who shall have had as a bank officer at least seven to ten years' experience, to be nominated by the banks, and nomination approved by the President, who shall serve until incapacitated, or be retired after so many years' service, with pay proportional to length of service, and who will be subject to immediate dismissal if dishonest, notoriously incapable, or speculative; and a board of directors of not less than twenty-one in number, of whom seven shall be residents of the present reserve cities (or cities in which clearing-houses may exist), as specified in the existing National Bank Act. These directors shall serve for terms of two, four, and six years, by classes. Fourteen of them shall be elected from the city of New York, from among bank officers, members of the clearing-house, and be presidents or cashiers, who shall have served at least seven years as such officers. This latter provision shall apply to the seven non-resident directors, who shall be elected by the clearing-house banks in the respective reserve cities, or such as have clearing-houses. The Government shall have the right at all times to examine the books of the bank, weekly reports of its condition shall be made, and a semi-yearly audit and statement of account shall be made, in the manner of the English banks, and by a committee ap-

¹ This provision is intended to render unnecessary the recoinage, at great loss, which now takes place of foreign coin remitted to this country.

pointed by the banks outside of the city of New York. The receipts from customs, etc., at New York City, shall be deposited in the proposed bank, receivable and payable in *coin*, as now provided by law, unless such mode of payment be waived by the payer or receiver. The deposits of the Government at all other points than at New York shall be deposited in the national banks at the different points of deposit, which banks are to be associated through their clearing-houses, which are to be given the necessary legal functions, and which deposits are to be secured by deposit of the securities provided by the proposed law; such deposits to be distributed *pro rata* among the banks belonging to the clearing-houses in proportion to the amount of securities severally deposited by them. Any excess of deposits made over and above the bonds required of these banks as security for deposits to be immediately remitted to the Associated Bank at New York under the same penalties as now provided by law, and under the supervision and at the risk of the associated clearing-house banks, they being liable for all deficits which may occur by reason of their neglect in requiring the proper amount of security. The Associated Bank might serve as a clearing-house for out-of-town checks, the clearing-houses of the different cities receiving and paying for the items within a prescribed territory.

The Sub-Treasuries in the different cities to be retained as to form merely; their functions to be suspended for the term of three years, unless otherwise provided by Congress; but if through actual losses and inconvenience experienced by the people or Government in the transaction of daily business, it shall then be demonstrated that the change of system has not been

¹ The banks associated through their clearing-houses, which could be incorporated for the purpose, giving each clearing-house (the capital in bonds being paid in by the associated banks in each city) the power to receive and distribute Government deposits, but no other banking power, to each member in proportion to amount of bonds deposited by such member. The clearing-house could authorize the receipt of Government deposits by banks within a certain distance from each city, taking from such banks such security as the incorporated clearing-house thought proper, but always at the risk of such clearing-house.

successful, the Sub-Treasuries shall be revived, and the present system be continued.

The Associated National Bank shall be exempt from all taxation, both state, city and national, but as compensation for such exemption from local taxation shall be required to do all the municipal financial business of the state and city, paying interest, registering debt, etc. (The bank shall not be subject to penalties for usury; but the Board of Directors, by a two-thirds vote to that effect, may increase or diminish the rate of interest upon loans of ninety-day paper, or any less term, and shall not be permitted to discount or loan for a longer period than ninety days.)¹ Its directors may establish a "good service fund" for the benefit of the clerks and officers of the bank, and may establish such extra compensation for terms of service in the bank exceeding ten, fifteen, twenty, or twenty-five years, as may seem proper to them.

In case of the failure of any of the banks, owners of the stock of the Associated Bank at New York, the Associated Bank shall pay for and retire such stock at par and the accumulated surplus to the Comptroller of the Currency, and shall retain such stock having the authority to issue it to any National Bank which may be formed after the date of the passage of the proposed act, and not provided for therein. If no such transaction takes place within one year from the date of the purchase of the stock of the failed bank, then such stock shall be cancelled, and shall no longer be a part of the capital of the Associated Bank, at New York.

The bank should not be permitted to make any dividend exceeding 6 per cent. upon the capital until the surplus equals 50 per cent. of its proposed capital; it shall then declare six per cent. upon the capital to the banks as stockholders, and three per cent. upon the surplus of say, \$15,000,000 to the Govern-

¹ The object of this proviso is that the same method of defending our specie reserves may be practicable as is now used by the Banks of France, Germany, and England. To-day, owing to our usury laws, we are without any defence against a rapid drain of gold.

ment, retaining all other surplus earnings until the surplus equals the capital, when the earnings shall be divided in the following manner: 6 per cent. to the banks as stockholders; 6 per cent. to the Government upon the surplus — say \$30,000,000; and the total excess to the holders of the stock. The Government would thus receive a fair compensation for the privileges granted the bank.

The charter to run for the term of thirty years, unless abrogated by joint assent of the Government and the banks, and subject to amendment at any time upon a similar basis.

Calling your attention to the statement as to the rapid disappearance of the National Currency made in my preliminary remarks, I further propose that the legal tenders, silver certificates and gold certificates shall be retired, and in their place that a 2 per cent. bond be issued — except that the notes of all kinds retired be converted into a legal tender issue, only to be used under the circumstances to be pointed out hereafter. The consolidation thus effected would give, say \$158,500,000 gold certificates, \$240,600,000 silver certificates, and \$346,700,000 legal tenders; in all, say \$750,000,000 (including gold and silver certificates in the Treasury), of National Bank Currency; the notes only to be changed into their new form as the National Bank Currency takes the place of such notes. This would free for the Government \$332,000,000 of gold, and \$250,000,000 of silver, say \$582,000,000, which would be applied to the payment of the $4\frac{1}{2}$ per cents, say \$180,000,000; the payment over to the bank of, say \$100,000,000 of the money due the banks on account of “reducing, retiring, etc.” bank notes, they assenting thereto. The balance carried by the Government hereafter on its own account need not exceed \$50,000,000 — total, say \$330,000,000. The excess, say \$250,000,000, could be applied to the purchase of the 4 per cent. bonds, of which there are \$680,000,000 outstanding. The Secretary should, however, be empowered to issue Treasury warrants or bills at such rate of interest as may be agreed upon from time to time, to meet any

sudden emergency, and be accountable to the House of Representatives as to the necessity for such issue.

If the system proposed should be adopted in its entirety, it would save the nation \$10,000,000 per annum. The issue of the converted notes, or "unified national debt," would be made should any national bank notes fail to be redeemed according to the terms of issue, if not retired by the Associated National Bank. The issue of small notes, say *ones, twos, and fives*—you may add tens—by the banks, redeemable in silver, would take up the silver paid into the bank by the Government, and while no profit would be made on that part of the issue by the banks, the profit would be made on the larger notes, if not taxed, as they should not be. The useless carting to and fro of the national bank notes would be saved, and the present costly method of handling these notes be obviated. By providing that the banks, upon deposit of coin and bullion, could extend their issues to any amount, the transfer of coin from point to point could be saved, with a corresponding reduction of the rate of exchange to the people, thus guaranteeing an ample supply of currency. By providing a reserve power of issue in the Associated Bank, so that if money become dear it could issue, say \$40,000,000 of notes in time of need, or such sum as might be needed, which should be withdrawn as soon as the need ceased, we can guard against excessive stringency at any time, and, by providing for their return, excessive expansion. With these notes, and those issued by the national banks, we would have a flexible and automatic currency, protecting us against extremes of either need or excessive issues of paper money. The extravagant use of the public moneys would be repressed, if not avoided, and, as I have said before, an annual expenditure of \$10,000,000 be saved to the country. I have not treated the silver phase of the proposed scheme because I believe one of two things will happen,—either we will be upon a silver basis before this change could be effected, or England will be compelled to come into an international scheme for an extended use of silver. So believing, I think this country can buy without injury

\$24,000,000 of silver per annum, and take its chances as to its ultimate appreciation; one thing is certain, that if we fall to a silver basis, the Government can pay its obligations with the bullion so purchased at an apparent profit to itself — how it may result as to the nation is another and greater question.

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